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July 2018 has seen far reaching political, economic and social developments in China. These have included the initiation and escalation of the China-US trade war; China lobbying other major countries to form an anti-US front and preserve globalisation; China denying charges of ensnaring South Asian countries into debt traps; and the PLA striving to beat the "peace disease" and undertaking steps to reinforce combat readiness both in the East China Sea and Tibet. Meanwhile, corruption scandals and disaffected communities continue to disturb Chinese society. This inaugural issue of the DPG China Monitor aims to capture the Chinese narrative on developments both inside and outside China, based on reports and commentaries appearing in open source Chinese media.

FOREIGN AND SECURITY POLICY

Foreign Policy

China-US Trade War



China says there are no winners in a trade war.
Source: People's Daily,
<http://en.people.cn/n3/2017/0814/c90883-9255164.html>

The emerging trade war between China and the US began in earnest on July 6, 2018. Beijing not only lodged protests against US measures but also made dire predictions about the global impact of the trade war. Beijing claimed that Washington had trampled on two red lines: multilateralism and China's right to development. Chinese interlocutors further

argued¹ that Washington's tariff plans strike a heavy blow against the WTO's rules based international trading system, disrupt the international division of labour formed after decades of development, and affect the global distribution of interests, which will result in a return to the law of the jungle and bring about untold uncertainties and risks.

The Chinese narrative also examines why the administration of US President Donald Trump is engaged in a trade confrontation with China.

Several assumptions² are doing the rounds in Chinese strategic circles. First, President Trump is playing to his domestic constituency. Second, he really wants to redress the US trade deficit issue with China. Third, containing China's technological progress is his real purpose and that is why the list of US tariffs targets Chinese high technology industries such as aerospace, telecoms and artificial intelligence. Chinese commentaries claim that there are only three protagonists³ in the US who want a trade-war with China: the US President himself, the US Trade Representative Robert Lighthizer and the

Director of the White House National Trade Council, Peter Navarro.

Chinese dailies say that China is getting mentally prepared for a protracted trade war with the US and devising a resolute strategy to maximise its adverse impact on the US while ensuring resilience at home. An unsigned [Global Times](#)⁴ editorial advocates that “China has to play hardball and knock the Trump administration forcibly out of its dream to conquer us”.

China has reportedly decided to adopt a “more proactive fiscal policy” and speed up spending of 1.35 trillion yuan⁵ (about US\$199 billion) on local governments, designated mainly for infrastructure. These efforts, along with a less aggressive monetary policy stance, are intended to handle the ongoing trade dispute with the United States. Beijing is also playing down its ‘Made in China 2025’⁶, saying that the world should take an objective and unbiased view of the plan. It was reported⁷ that President Xi Jinping, after returning from his Middle East and Africa trip, will gather the party’s retired and serving elites for a strategy session at Beidaihe, the Communist Party’s Camp David-style retreat, to forge a consensus to handle the political fallout from the US trade war. Meanwhile, China’s judiciary⁸ is preparing itself for a possible spike in the number of corporate bankruptcy cases as a result of the trade disputes. China is also bracing for more challenges in Sino-US ties and there is a worry that this trend might have a spill-over effect on its core interests, like the Taiwan issue and the South China Sea.

In the ongoing China-US trade war, the role of the WTO has come to the centre stage. China is increasingly turning to the World Trade Organisation⁹ as a way to fight back against the latest tariffs proposed by US President Donald Trump. China’s Minister of Commerce Zhong Shan, in a signed article in the People’s Daily under the title “An open China and a win-win world,” has announced that “China will continue to be an active participant in, steadfast supporter

of, and important contributor to the multilateral trading system¹⁰.” China claims that the trade war will expose two paths towards trade development – whereas the US represents unilateralism, protectionism and economic nationalism, China is pushing for multilateralism and free trade.

China in South Asia

There was considerable coverage during the month that from Pakistan to Sri Lanka to Myanmar, China’s economic initiatives are creating ‘debt traps’ for nations in South Asia. While talking about Sri Lanka’s debt issues, a Chinese daily contends that China cannot be blamed for Sri Lanka’s debt quagmire because it is rooted in the country’s financial deficit - triggered mainly by low revenues and huge welfare costs. It is further argued that the western media is biased about China’s association with developing countries in South Asia. Thus, Sri Lanka owed China \$2.87 billion in 2017, which is only 10 per cent of the country’s foreign debt. Meanwhile, Sri Lanka’s debt to Japan reached 12 per cent of the total. “Why does the West not blame Japan for Sri Lanka’s debt problem?”, asks a [Global Times](#)¹¹ article.

The Chinese media further argues that the critics of Chinese policies in South Asia have themselves contributed very little to the development of these struggling democracies. In the case of Myanmar, the Chinese strategic community argues¹² that all the West has done to facilitate Myanmar’s development is “NATO [No Action, Talk Only]”. While China has made up nearly a third of Myanmar’s foreign direct investment since the 2014-15 financial year, the US has only contributed 0.4 per cent of the total. Similarly, in Sri Lanka, they claim, the West has only played up the human rights issue to pressure the South Asian country.

With the change of government in Pakistan, the future of China-Pakistan relations and China’s flagship project CPEC has been gathering much

global attention, especially after Pakistani lawmakers debated if CPEC will be another “East India Company”. The Chinese discourse¹³ in this case is that China-Pakistan relations will endure any power change in that South Asian country and speculation about Pakistan's debt issues is merely a political hype, created to drive a wedge between Beijing and Islamabad.

Talking about the debt problem, the Chinese strategic community says¹⁴ that China's own experience of overcoming its debt problem in the early 2000s carries immense lessons for developing countries. In the future, China will pay more attention to the solvency of the recipient countries and start building some of the industrial parks and transfer the manufacturing industrial chain more quickly, which will create conditions for the borrower to repay loans. At the same time, they aver that under the Belt and Road Initiative, cooperation will not stop at the construction of infrastructure alone.

China and India

The Chinese media's coverage on India this month was mostly related to the latter's role in the US proposed Free and Open Indo-Pacific strategy and the Quad. The last minute postponement of the US-India 2+2 dialogue was the key issue of discussion among Chinese strategic circles. They concluded¹⁵ that it is Prime Minister Narendra Modi's speech at the Shangri-La Dialogue which was the likely main reason why the US is slamming the brakes on ties with India. One Chinese scholar argued¹⁶ that the US is not the one that can provide New Delhi with the wherewithal that its development needs. The US's prioritisation of India as reflected in its Indo-Pacific strategy was only rhetorical and India's benefits from this strategy may be greatly outweighed by the costs involved.

Meanwhile, a Chinese black comedy “Dying to Survive”, which depicted a leukemia patient importing and selling less expensive generic anticancer drugs from India for chronic myeloid

leukemia (CML) patients who cannot afford the exorbitant cost of the drug, triggered debates¹⁷ in China. The dominant narrative was the need for opening up the Chinese market for Indian pharma companies, which India has demanded for a long time to reduce its trade deficit with China.

China and Europe



Chinese Premier Li Keqiang in Berlin on a state visit.

Source: China Daily,

<http://europe.chinadaily.com.cn/a/201807/09/WS5b436210a3103349141e1aec.html>

Chinese Premier Li Keqiang paid a state visit to Germany¹⁸ and attended the 7th Leaders' Meeting of China and Central and Eastern European Countries (CEEC) in Sofia, Bulgaria, where he advocated free trade and economic globalisation while seeking to forge a joint defence against President Trump's trade policies. Meanwhile, the 20th EU-China Summit was organised on July 16-17, 2018 in Beijing after which both sides issued a joint statement¹⁹. Reports²⁰ suggest China and the EU see new fields of cooperation in the face of Trumpian policies marked by “isolationism and protectionism”. However, China remains concerned²¹ about the deep distrust that continues to plague China-Europe relations. In Germany, there are serious apprehensions about “industrial espionage” being conducted by China. The construction of the Hungary-Serbia railway, a Belt and Road project, to be eventually linked with the Port of Piraeus in Greece, has been held up due to an EU investigation. Brussels is

reportedly worried that China has geopolitical motives in promoting the 16+1 mechanism and that China-CEEC cooperation will dent unity within the EU. Economically, the EU does not recognise China's market economy status and seeks to revamp anti-dumping and anti-subsidy legislations against Beijing. It is also apprehensive that Chinese investment in the EU's high-tech enterprises and the "Made in China 2025" plan would undermine the EU's competitive edge. The strategic community in China, therefore, remains divided over the growing consensus between China and the EU over trade. There are some expectations that this will develop into a deep strategic cooperation capable of challenging the US in the long term. On the other hand, the recent EU-US trade truce²² has dampened expectations for an EU-China united front against Trumpian trade policies.

China in the Middle East and Africa

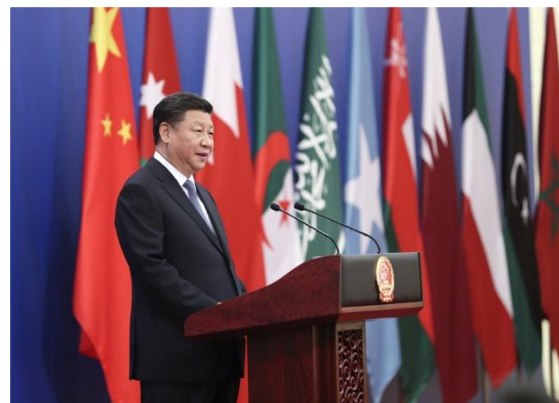


The 10th BRICS Summit was held from 25th-27th July in Johannesburg, South Africa. Source: Xinhua, http://www.xinhuanet.com/english/2018-07/28/c_137354306.htm

In his first overseas trip since his re-election as President, Xi Jinping visited the United Arab Emirates, Senegal, Rwanda, Mauritius and South Africa and also attended the 10th BRICS Summit in Johannesburg. Xi's Africa tour was marked by his ambitious push for China's Belt and Road Initiative, garnering support from the developing world amid an escalating trade war with the US and further cementing Beijing's influence²³.

Similarly, there was an upswing in China's relations with Arab states. The Eighth ministerial

meeting of the China-Arab States Cooperation Forum was held in Beijing at which both sides agreed to develop a blueprint for the next phase of China-Arab cooperation through a Comprehensive Strategic Partnership²⁴. As reported²⁵, China has signed agreements on the joint promotion of the Belt and Road Initiative (BRI) with nine Arab countries. These include the China-Egypt TEDA Suez Economic and Trade Cooperation Zone, the Silk City in Kuwait, the Dragon City in Dubai, UAE, the China-Oman Industrial Park, Saudi Arabia's Vision 2030, and Jordan 2025, all under the banner of BRI.



Chinese President Xi Jinping delivering a speech at the eighth ministerial meeting of the China-Arab States Cooperation Forum on July 10, 2018. Source: China Daily, <http://www.chinadaily.com.cn/a/201807/10/WS5b441634a3103349141e1cb7.html>

However, there exist several challenges to Sino-Arab ties. The first is growing concern in the Arab world that China may become the "next America" in the Middle East. Second, the influx of "Made in China" goods has caused fears about Chinese products affecting local industries adversely.

China on the US-Russia Helsinki Summit

Amid talks of a possible US-Russia rapprochement being directed against China, the Chinese media gave close attention to developments at the Trump-Putin Helsinki Summit. Debating the dynamics of US-Russia relations at the summit, Chinese scholars rejected the likelihood of any adverse impact on China and argued²⁶ that in the short and medium term, Russian-US ties will hardly turn around, let

alone see a big improvement, regardless of the personal friendship between Trump and Putin²⁷. They opined²⁸ that it is difficult for the two sides to initiate genuine cooperation because there are fundamental differences between Russia and the US on a series of major issues, such as interference in US elections, Ukraine, Iran, arms control and so on, which are hard to eliminate. There are also fundamental contradictions in the goals of the two nations. While the US wants to turn Russia into a middle power of Europe that integrates with or at least poses no threat to the West, Russia has the ambition of emerging as a 'pole' in the world order. In the Chinese perception, US-Russia relations have spiralled downward and these intrinsic contradictions cannot be redressed in the foreseeable future.

However, post the Helsinki Summit, Chinese strategists have taken note of Trump's treatment of Russia. They have argued that Trump is a man who values strength, especially nuclear strength. The US's "strategic arrogance" in the South China Sea and over the Taiwan issue, they say, may be the result of its absolute nuclear advantage over China. Based on this argument, they advocate²⁹ a rapid expansion of China's nuclear arsenal.

Security Issues

PLA Upgrading its Operational Posture



Beijing launched live-fire drills in the East China Sea to 'test combat strength against Taiwan'. Source: South China Morning Post, <https://www.scmp.com/news/china/diplomacy-defence/article/2155868/beijing-launches-live-fire-drill-test-combat-strength>

The Global Times³⁰ reported that the People's Liberation Army (PLA) is undertaking steps to

improve the PLA Army's combat capability. A PLA Daily editorial³¹ highlighted that the PLA is ridden with "peace disease" and efforts are needed to step up battle-readiness through training and stamping out corruption in the military.

According to reports, PLA soldiers have been conducting a series of drills to upgrade their capability and test their capability. Over 50 combat units comprising airborne troops and special forces at five locations are said to have taken part in a week-long exercise in modern electronic warfare. Units of the People's Liberation Army stationed in Southwest China's Tibet Autonomous Region have carried out military drills to test their logistics and armament support capabilities. The driving rationale is that in the 1962 China-India border conflict, China failed to protect fruits of its victory due to poor logistics support. Correcting shortcomings of the past has been the key agenda of the drill, reports the Global Times³².

PLA has also conducted a six-day live-fire drill in the East China Sea, which according to the Global Times³³ is meant 'to send a serious warning to Taiwan separatists'. The East China Sea, the article said, will be a main battlefield if war takes place in the future, as it is key to solving the Taiwan question and other disputed island issues. However, observers³⁴ note that such comments by the party mouthpiece are in contrast to the tone of Xi's recent meeting with Lien Chan, former chairman of Taiwan's mainland-friendly Kuomintang, when the Chinese President reportedly said: "We have the confidence and ability to ... work for the peaceful development of cross-strait relations, and advance the process toward the peaceful reunification of China". Therefore, it is believed that the drill was designed to send a warning to not only Taiwan but also to the US and Japan. Beijing has reacted³⁵ sharply to the sailing of two US destroyers through the Taiwan Straits. Global Times reported a Japanese³⁶ proposal for MSDF naval ships to sail through the South China Sea

and the Indian Ocean this September. Meanwhile, owing to the deterioration in cross-strait relations, Taiwan³⁷ has deployed a second squadron of its US-made Apache attack helicopters, a development that the Taiwanese president has described as a milestone in the island's defences against invasion.

The Global Times³⁸ reported that the China Coast Guard (CCG), whose command has recently been transferred from China's oceanic authorities to the military with the objective of making it play a bigger role in safeguarding China's core interests, conducted patrols in the waters surrounding the Diaoyu (Senkaku) Islands, sending a political and military message that the Coast Guard will now defend the country's maritime rights jointly with the PLA Navy.

The Chinese strategic community has strongly criticised³⁹ the PLA Navy's exclusion from RIMPAC 2018. Zhou Bo, a Chinese military expert, has said that while the US snub will in no way impede China's military development, it has deprived both militaries of a much needed opportunity to exercise together to avert potential incidents, and has also raised the political temperature between the two rival powers. Meanwhile, according to US media reports, China sent a spy ship⁴⁰ to monitor the US-led RIMPAC 2018 drills in the waters off Hawaii. Chinese military experts averred that while the ship could be used to obtain information about communication channels, it was not breaking international law by shadowing the exercise.

CHINA'S DOMESTIC SCENE

Economy

China's gross domestic product expanded 6.8 per cent year on year in the first half of 2018 to about 41.90 trillion yuan (6.27 trillion U.S. dollars), according to data from the National Bureau of Statistics (NBS). Reports⁴¹ claimed that China's economic growth remains robust and there are no apparent signs of any significant economic slowdown despite the potential impact of China-

US trade frictions. However, Chinese policymakers are expecting severe challenges in the second half of this year and warning that the healthy GDP growth achieved in the first half of the year, which has been higher than the expectations of many China observers, should not mislead decision-makers. Chinese censors are said to have advised the Chinese media not to "over-report"⁴² the trade war with US and not to link the trade war with the stock market's fall, the depreciation of the yuan or weakness in the economy, to avoid spreading panic.

Amidst the intensifying trade war, possibility of a US-China currency war also found coverage. It was reported⁴³ that the US is reviewing the recent weakness of the Chinese yuan for signs of manipulation. Prospects of branding China a currency manipulator found mention for the first time since President Donald Trump dropped his pre-election pledge to do so. Beijing contends that there is no reason why China will manipulate its currency because a depreciating yuan, although favourable for China's exports, will put pressure on capital flight, stimulate inflation and dampen the market's expectation of the country's economic outlook.

Meanwhile, a report issued by the International Monetary Fund⁴⁴ offered a generally positive picture of China's economic performance along with optimistic predictions of continuing development. Although it said tariffs imposed by the Trump administration on Chinese imports are likely to have "limited direct impact" on China's economy, it nevertheless urged China to resolve trade hostilities through "established mechanisms".

Internal Security

After spending much of the past eight years imprisoned in her own home, Liu Xia, widow of China's most prominent dissident and Nobel laureate, Liu Xiaobo, left China for Germany on health grounds, the South China Morning Post⁴⁵ reported. Although not charged with any crime, Liu Xia had been under house arrest since 2010,



Liu Xia, widow of Nobel winner Liu Xiaobo, arrives in Germany after eight years of house-arrest. Source: South China Morning Post, <https://www.scmp.com/news/china/policies-politics/article/2154570/liu-xia-widow-nobel-prize-winner-liu-xiaobo-flies-out>

when her late husband Liu Xiaobo was awarded the Nobel Peace Prize while in prison. Liu Xia's release does not signal Beijing's change of heart towards dissidents. While commenting on human right issues in China, a recent Global Times [article](#)⁴⁶ clarified that "China's social development must help consolidate unity under the leadership of the Communist Party of China, the whole society must be clearly aware of it". At the same time, another Global Times article accepted that "[properly managing dissidents is a challenge for China](#)"⁴⁷, observing also that China has relatively tighter social governance than Western countries and it is a political issue for China to figure out how to effectively manage and yet show tolerance for dissidents.



Chinese President Xi Jinping urges thorough probe in vaccine scandal. Source: China Daily, <http://www.chinadaily.com.cn/a/201807/24/WS5b561f66a31031a351e8fa3d.html>

A major vaccine scandal gripped China in July, after Chinese drug makers were found to have supplied substandard vaccines that were administered to babies as young as three months old, leading to widespread protests from parents. The Chinese government tried to

suppress the spread of public fear and anger, with President Xi himself ordering a [thorough investigation](#)⁴⁸ into the vaccine case. Meanwhile, the Chinese government has reportedly [censored](#)⁴⁹ social media posts about the vaccine scandal.

Another issue that made headlines was unrest among veterans. Two high-profile meetings were held to address the complaints of veterans who took to the streets in the thousands last month to demand better welfare rights and an end to violence against them. The Chinese [discourse](#)⁵⁰ is that multiple reasons, such as currency devaluation, industry upgrades and failure of local governments in implementing policies, have led to disaffection among some retired veterans. However, they should not be treated as an '[unstable factor of society](#)'⁵¹. China's Ministry of Veterans' Affairs has [completed the first draft of a new law](#)⁵² designed to protect the interests and welfare of 57 million retired members of the armed forces. Unrest among veterans remains a key domestic test for Beijing, as observers and even the former soldiers themselves remain sceptical about the promise of better conditions, the [South China Morning Post](#)⁵³ reported.

The Chinese Communist Party

The Communist Party of China (CPC) had 89.56 million members with 4.57 million primary-level Party organisations at the end of 2017, the Organization Department of the CPC Central Committee announced ahead of the 97th anniversary of the CPC's founding on July 1, reported the [Global Times](#)⁵⁴. While elaborating on "the great new project of Party building", Xi Jinping is said to have directed the party to select officials on the basis of both integrity and ability, with priority given to integrity, and on the basis of merit regardless of background, a [report](#)⁵⁵ mentions. During the month, President Xi is also reported to have addressed the new leadership of the Communist Youth League of China (CYLC) Central Committee, urging [Chinese youth to dare to dream, and work courageously and diligently to realize their dreams](#)⁵⁶

Endnotes

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