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DPG China Monitor

DPG China Monitor is compiled by our research team from open source Chinese media. Your comments and feedback can be addressed to Antara Ghosal Singh at antara@dpg.org.in

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Abstract

The month of May saw a rapid downturn in China-US relations. Just when it appeared that a US-China trade agreement was in sight, talks broke down, with both sides blaming each other. While the US claimed that China had reneged on commitments, China blamed the US for bringing up issues that either harmed its sovereignty and dignity or were seriously unequal and unrealistic. China issued a White Paper on June 2, 2019 to clarify its position on the trade talks.

After the breakdown, the US announced additional tariffs of 25 percent on Chinese imports on May 10, 2019. Again, on May 15, 2019 President Trump signed an executive order prohibiting the import of telecommunications gear from “foreign adversaries”. Thereafter, the US Commerce Department added Huawei Technologies Co. to its entities blacklist, imposing major restrictions on transfers of US technology to Huawei and its subsidiaries. China responded with a combination of countermeasures ranging from tariffs to the possibility of announcing an “unreliable entities” list, while also threatening to limit or even stop the export of rare earths to the US.

Apart from trade and technology issues, Taiwan also emerged as an important point of friction in China-US relations. The Chinese media strongly criticised the US House of Representatives for passing the Taiwan Assurance Act of 2019 during the month, with the intention of enabling the US to make regular defence sales to Taiwan and supporting Taiwan’s participation in international organizations.

To deal with the overall downward spiral in China-US ties, Chinese commentaries called for a shift from the hitherto “half-truce” model to a “fighting and talking” model. The scenario of intensifying competition between China and the US was compared with the Korean War, where the two countries were in a similar ‘fighting and talking’ mode and “China's persistence on the battlefield and the resultant gains eventually forced the Americans to bow their heads at the negotiating table”. Taking a cue from history, Chinese political and strategic elites believe that regardless of the progress on the trade talks, China should “lose all illusions about a cordial relationship with the US and prepare for a protracted war.”

Other important developments in China’s foreign policy included China hosting the Dialogue of Asian Civilizations (CDAC) and Chinese Vice President Wang Qishan being conferred with the Nishan-e-Pakistan, Pakistan’s highest award for foreign leaders. Regarding India, “continuity, not change” is what
China expects from Modi 2.0. The Chinese media expressed the hope that the second informal summit between President Xi Jinping and Prime Minister Narendra Modi will see detailed discussions on topics such as the border issue, bilateral economic ties, coordinated moves against US bullying on trade and joint projects in third countries like Afghanistan. The possibility of a China-India FTA or a bilateral investment treaty (BIT) being proposed at the meeting was also mentioned.

On the state of the Chinese economy, there was “prudent optimism” among economists, both within the government and outside. It was suggested that China should adopt a policy of ‘doing its own thing’ and expanding its circle of friends to deal with external pressures. In the internal security space, the news of China’s former top securities regulator Liu Shiyu being placed under investigation created ripples in party circles and outside. Chinese media, however, saw this as the success of the ‘anti-corruption drive’ wherein more and more high profile suspects were being brought under scrutiny and investigation.

The month also saw several high profile CPC meetings and promulgation of new regulations, guidelines and campaigns aimed at enhancing China’s central task of reform, development and stability.
1. Foreign and Security Policy

China-US Relations


Just when a US-China trade agreement appeared to be in sight, an abrupt breakdown in negotiations took place after the 11th round of high-level talks on May 9-10. While the US blamed China for putting up obstacles and going back on its word, the Chinese side, during a media briefing on May 10, held Washington responsible for bringing up terms and conditions that either harmed the sovereignty and dignity of China, or were “seriously unequal and unrealistic”. According to the Chinese narrative, it was China’s three un-met concerns that led to the breakdown of the talks. First was China’s request to remove all additional tariffs imposed on Chinese exports. Second, the demand to make the purchase of U.S. goods realistic. And, third was insistence on striking a “proper balance” in the text of the agreement. Later, China issued a White Paper, titled ‘China’s Position on the China-U.S. Economic and Trade
Consultations’ on June 2, 2019 to highlight its differences with the US in the negotiation process.

Right after the breakdown of talks, Washington announced a 25 percent tariff on Chinese imports on May 10, 2019. Another tariff hike on $300 billion worth of Chinese goods is currently being discussed, which could come into effect in late June.

On May 13, China responded by announcing duties of 10 percent, 20 percent and 25 percent on different U.S. goods worth $60 billion effective from June 1, 2019. China’s Ministry of Commerce also announced on May 31 that the Chinese Government would establish a list of “unreliable entities”, most likely targeting American enterprises, organizations and individuals dealing with China.

Following the breakdown of talks, the US government, on May 15, issued a presidential executive order forbidding US companies to use telecommunications equipment produced by companies that pose a risk to national security and the list included Huawei. Thereafter, US technology firms, including Google, Intel, Qualcomm and Xilinx, cut off their supply deals with Huawei.

The Chinese side viewed the incident of banning Huawei as a pressure tactic, to force China to submit at the negotiating table and to curb China’s high-tech development and industrial upgradation. On May 21, Huawei founder and CEO Ren Zhengfei, said in an interview that the US ban may have some impact on Huawei’s low-end products, but it won’t have much impact on Huawei’s high-end products, particularly on 5G. These attempts, he said, won’t be able to suppress Huawei; rather, they will make it stronger and more determined.

Post the US restrictions on Huawei, an animated discourse broke out in China on limiting or completely stopping the export of rare earth materials to the US. China has 30% of the world’s total reserves, while production accounts for more than 80% of the world’s total output. Following much discussion on how to turn this resource into strategic advantage, a consensus view is emerging that were the US to escalate the trade war, sooner or later, China will use rare earths as a weapon. It is being argued that if China decides to ban rare earths export to the US, it would produce complex effects, including inflicting certain losses on China itself, but such a move will inflict much greater loss to the US.

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Against this backdrop, Chinese strategists advocated a shift in China’s positioning vis-à-vis the US, from the hitherto “half-truce” mode to “fighting and talking” mode. Commentators compared the intensifying China-US competition with the Korean War, where China and US were in a similar ‘fighting and talking’ mode., claiming that the Chinese persistence on the battlefield and continuing gains eventually forced the Americans to bow their heads at the negotiating table. Taking cues from history, there is a rising belief among Chinese strategists that regardless of the progress of the trade talks, China should “lose all illusions of early settlement and prepare for a protracted war.” The strength, which China has accumulated over the past 40 years of reform and opening-up, is deemed to have created sufficient capital for China to pursue a policy of combining military struggle with its pursuit of development.\(^3\)

*Conference on Dialogue of Asian Civilizations (CDAC)*


On May 15, Chinese President Xi Jinping attended the opening ceremony of the Conference on Dialogue of Asian Civilizations (CDAC) in Beijing and

\(^3\)苏晓晖：美方一意孤行必将承受严重后果, People’s Daily, May 21, 2019, [http://views.ce.cn/view/ent/201905/21/t20190521_32136230.shtml](http://views.ce.cn/view/ent/201905/21/t20190521_32136230.shtml)
delivered a keynote speech where he called for efforts to jointly create a brighter future for civilizations of Asia and the world. Guests from 47 countries attended the Conference to “celebrate the diversity among civilizations and promoting dialogue between civilizations”.4

The Chinese president raised a four-point proposal towards jointly building a community with a shared future for Asia and humanity by 1) treating each other with respect and as equals; 2) appreciating the beauty of all civilizations; 3) adhering to openness, inclusiveness, mutual learning; and 4) keeping pace with the times5.

A Global Times article highlighted that the event was aimed at gaining a mutual understanding between Asian countries. At the same time, it will advance foreign understanding of Asia’s civilizations and modernization, which is conducive for world peace, prosperity, development, and globalization6.

Meanwhile, “interactions between civilizations’ has been one of the hotly debated topics among Chinese strategic circles this month, particularly after U.S. State Department Director of Policy Planning Kiron Skinner’s speech at a security forum where she compared the unfolding China-U.S. competition to “a clash of civilizations,” claiming it is “the first time we will have a great-power competitor that is not Caucasian.”

The Chinese papers criticised two popular western theories – Francis Fukuyama’s ‘End of history theory’ and Samuel Huntington’s ‘Clash of Civilisations’ theory. They argued that neither would liberal democracy be the end of all history, as predicted by Fukuyama, nor was a ‘Clash of Civilizations’ inevitable as predicted by Huntington. They contended that the ‘Clash of Civilization’ should be replaced with a ‘Return of Civilization’ argument, which implies return of China as a great power, return of diversity and return of equality among world civilizations7.

6Civilization advances when change is embraced rather than ignored. May 15, 2019, http://www.globaltimes.cn/content/1150038.shtml
China-India Relations

Chinese media kept a close eye on Indian elections during the month. Articles in the Chinese press highlighted that in the field of diplomacy, Modi’s five years have successfully put India in the global limelight, including in China, where Indian affairs were never so popular. Modi’s popularity and influence in China, Chinese strategists argued, have surpassed successive Indian leaders including Nehru. The Chinese side was highly appreciative of PM Modi’s China Policy which included maintaining a neutral stance in the US’ Indo-Pacific strategy, not inviting Australia to join the Malabar 2018 exercises and stressing that there was “no need to give a military angle to the Quad”. All these, they said, were behind China’s change in position regarding the Masood Azhar issue.

“Continuity, not change” is what China expects from Modi 2.0. It was argued that in Modi’s second term, India will continue its hedging strategy of carefully balancing ties with the US and China. While New Delhi will cooperate with the US in security, it will cooperate with China in development and other issues such as multilateralism.

The Chinese side is looking forward to the second informal summit between President Xi Jinping and Modi where discussions are expected to be held on topics like “dealing with border issues in a more mature way, deepening bilateral economic ties, coordinating moves against US trading bullies and joint projects in a third country like Afghanistan”. One article in Global Times even discussed the feasibility of India-China establishing an FTA or negotiating a bilateral investment treaty (BIT) as a potential topic of discussion during the upcoming summit.

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9 Continuity, not change, expected from Modi 2.0, Global Times, May 29, 2019, http://www.globaltimes.cn/content/1152254.shtml
10 ‘Modi 2.0 to balance ties with China and US’ Global Times, May 29, 2019, http://www.globaltimes.cn/content/1152806.shtml
Chinese Vice President Wang Qishan visited Pakistan from May 26-28, 2019 and met with Pakistani President Arif Alvi and Prime Minister Imran Khan. Both sides upheld their "iron friendship" and reiterated commitments towards constructing a high-quality CPEC in the next phase. The visit also culminated in signing of bilateral cooperation agreements on agriculture, customs and disaster relief. Pakistan conferred the Nishan-e-Pakistan, the country’s highest award for foreign leaders, on Wang\textsuperscript{11}. The visit took place in the backdrop of two negative developments in China-Pakistan ties: first, Chinese nationals employed in CPEC being accused of trafficking women from Pakistan to China, and second, a rising number of terrorist strikes in Pakistan targeting Chinese investments and personnel, the latest being the May 10 attack on the Gwadar PC hotel.

\textsuperscript{11} ‘China, Pakistan vow to further strengthen ties, cooperation’, China Daily, May 28, 2019, http://www.chinadaily.com.cn/a/201905/28/WSScecf0eba3104842260be48e.html
2. Taiwan

The Chinese press expressed concern about recent developments in the US-Taiwan ties. There was anger at the US House of Representatives passing the Taiwan Assurance Act of 2019 on May 7, which, it was argued, would enable the US to make regular sales of defense articles to Taiwan and support Taiwan’s participation in international organizations. Some called it a ‘blunt violation’ of the one-China principle and the spirit of the three China-U.S. joint communiques, while others contended that the move would further escalate China-US tensions and impede cooperation in other fields, such as on the North Korean nuclear issues.

Meanwhile, the Chinese side kept a close eye on the growing intimacy between the US and Taiwan in the recent past, particularly US warships frequenting the Taiwan Strait, the top National Security Council officials meeting with each other for the first time, and high-profile activities being held to commemorate the 40th anniversary of the “Taiwan Relations Act”. Chinese officials contended that the US is “playing with fire.”

3. Defence

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Chinese President Xi Jinping, during an inspection tour to the PLA Army Infantry Academy in East China’s Jiangxi Province on May 21, urged China’s Military colleges to “train the cadets for combat and focus on how to win when called on.”

Xi’s directive came in the aftermath of important developments in China-US military relations throughout the month\(^\text{13}^\). The Chinese military firmly opposed the “China Military Power” report issued by the US Department of Defense (DoD) on May 1 and lodged serious representations with the US, alleging that the report distorts facts, “deliberately misrepresents” China’s strategic intentions and makes “improper comments” on China’s “normal” national defense and military development. There were reports about a U.S. Navy warship sailing within 12 nautical miles of Scarborough Shoal, which was strongly criticised by the Chinese media\(^\text{14}^\).

Besides keeping watch on heightened interaction between the US and Taiwan, the Chinese media kept a close eye on developments in the South China Sea, particularly recent activities by the quasi-aircraft carrier Izumo of the Japanese Self-Defense Force and reports of a recent F-35 purchase deal between the US and Japan, which is meant to alter the military balance in the East Asia region.

Looking at trends in the region, Chinese military analysts argued that the traditional foundations of China-US economic ties and military dialogue mechanisms are breaking down and if the Trump administration hits China with more sanctions and provocative military actions, the Chinese military will have to come up with tougher countermeasures.

China’s toughening stance against the US was publicly stated by General Wei Fenghe, Chinese State Councillor and Minister of National Defense during his address at the Shangri-la Dialogue in Singapore on June 2, 2019. While reacting to US Acting Secretary of Defense Patrick Shanahan’s comment on US obligations under the Taiwan Relations Act, the Chinese general bluntly stated that “If the People’s Liberation Army [PLA] cannot safeguard the unity of the motherland, what do we need it for?”

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Meanwhile, China is gearing up for hosting and participating in several major military events in the following months. First, China will host the 7th International Military Sports Council (CISM) Military World Games in Wuhan from October 18 to 27, 2019 on the theme “Sharing friendship, upholding peace”. Second, it will participate in the International Army Games-2019 with Russia, Kazakhstan, Belarus, India and Iran in the first half of August, 2019. Third, it will host the “Great Wall-2019” international Counter-terrorism Symposium organised by the People’s Armored Police (PAP).

4. Economy

Chinese economists are prudently optimistic\(^\text{15}\) about the future of the Chinese economy. They argue that looking at the quarterly and annual reports of the listed companies and the economic data released by the National Bureau of Statistics in the month of April, they have every reason to believe that China’s economy will remain stable in the medium and long term\(^\text{16}\). Moreover, they highlight that the global community is also optimistic about prospects of the Chinese economy. In addition to the International Monetary Fund, JP Morgan Chase Bank, HSBC, Citigroup and other Wall Street financial institutions have

\(^{15}\) ’China not to compromise on matters of principle, economy resilient: vice premier’, Global Times, May11, 2019, http://www.globaltimes.cn/content/1149440.shtml

raised their forecasts for China’s economic growth this year. They further argue that be it Mitsubishi Corporation starting the Asian division of its chemicals business in Shanghai or SEG opening its Global R&D Center in the Changsha Economic and Technological Development Zone, more and more multinational corporations are expressing firm confidence in the Chinese economy.

The way forward, they argue, lies in China doing its own thing. As long as China maintains confidence, carries out reform and opening up with an unshakable attitude, keeps its focus on innovation and high technology, and expands China’s “friends circle”, the Chinese economy will maintain smooth and healthy development despite pressures17.

5. Internal Security

China’s anti-corruption campaign was once again in the news this month with yet another high profile case of China’s former top securities regulator Liu Shiyu. China’s Central Commission of Discipline Inspection (CCDI) announced on May 19 that the former head of the China Securities Regulatory Commission had “turned himself in” and is being investigated for violating Party discipline and laws18.

Liu had stepped down as chairman of the China Securities Regulatory Commission in January this year and was replaced by Yi Huiman. He was currently heading the All-China Federation of Supply and Marketing Cooperatives, a body that operates a network of 30,000 agricultural collectives.

Chinese media interpreted this incident as yet another success story of China’s anti-corruption drive. It was argued that the case marks a new trend in China’s anti-corruption campaign where officials suspected of violations are opting for voluntary confession in the hope of lower punishment. Other recent incidents of voluntary confession included that of Tang Qilin, former deputy party chief of Changning in Hengyang, Hunan Province and Qin Guangrong, former party chief of Southwest China’s Yunnan Province. This trend indicated the further deepening/maturing of China’s institutional anti-corruption mechanism19.

On the occasion of the 100th anniversary of the May Fourth Movement, Chinese President Xi Jinping delivered an important speech where he urged the youth of the nation to carry forward the spirit of the May Fourth Movement. Chinese media carefully studied the speech for its deeper meaning and relevance for Chinese society, particularly, Xi’s “six hopes” for the youth which included being more idealistic, more patriotic, shouldering more responsibilities of the times, and being ready for struggles, among others.

Meanwhile, President Xi presided over the 8th meeting of the CPC central committee on May 29, where he urged party members to resolve new problems through deepening reforms, strengthening endogenous impetus for economic

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20 在纪念五四运动100周年大会上的讲’, People’s Daily, April, 30, 2019, http://jhsj.k.people.cn/article/31061050?isindex=1
development and enhancing China’s ability to cope with challenges and resist risks.22

The other widely discussed party related topics this month included CPC’s new regulations on China’s cadre selection and appointment, guidelines on the promotion of integrated urban-rural development,23 regulations for strengthening and improving Party building in urban communities,24 and the soon to be launched education campaign25 for party members on the theme of “staying true to the Party’s founding mission”, among others. All these are believed to be a part of the big picture of China’s central task of reform, development and stability.

Yet another interesting development this month was China hosting the third World Intelligence Conference in Tianjin on May 16, where senior party members deliberated upon the “firm commitment” of China’s top leadership towards making China “a country of innovators” and also integrating artificial intelligence in China’s economic and social development.26

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