

# CHINA BRIEF

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## **In a Fortnight: Greying China Strains Social Safety Net, Healthcare System**

Despite the repeal of the "One Child Policy" and implementation of the "Comprehensive Two-Child Policy" in January 2016, in mid-January, the Chinese National Bureau of Statistics released a report that revealed that China's population has continued to decline ([The Beijing News](#), January 18; [China Brief](#), November 2, 2015). By the end of 2016, 230 million Chinese citizens will be over the age of 60, and that number is expected to rise to

400 million by 2055 ([China Daily](#), December 13, 2016).

A further breakdown of the data shows that in 2020, 42 million seniors will be unable to take care of themselves and 29 million will be over the age of 80 ([People's Daily](#), January 17).

Statistics such as this illustrate that China's population aging problem (laolinghua; 老龄化) is unlikely to be effected by the government's reversal of population control policies. Chinese senior leaders are now looking for ways to mitigate the demographic shifts' impact on the labor force, healthcare and social security. Importantly, China's leaders view demographic decline as the end of the era of

"strategic opportunity" that heretofore defined many of the economic and military reform plans.

Moreover, there are indications that the systems already in place are insufficient to address the challenges of the current situation. In late November, the Ministry of Human Resources and Social Security (MoHRSS) released a report on the state of China's social security system ([MoHRSS](#), November 24, 2017). The report's publication noted a need to "strengthen collection management" due to the higher-than-expected growth of expenditures versus revenues. A chart showing the budget each region in China had for its respective social security programs put the situation in simpler terms. While the economically prosperous areas such as Guangdong and Beijing posted expected budget surpluses, 13 out of 31 regions: Guangxi, Hainan, Hebei, Heilongjiang, Hubei, Liaoning, Inner Mongolia, Jiangxi, Jilin, Shaanxi, Tianjin, Qinghai, and Xinjiang Production and Construction Corps (a paramilitary and economic organization with authority over parts of Xinjiang) did not have a sufficiently high budget to pay for social security for a year ([Zaobao](#) [Singapore], December 11, 2017). One of the worst affected provinces is Heilongjiang, in China's Northeast, which had a budget deficit of 23.2 billion RMB (\$3.6 billion). It is also worth noting that at least two of the affected provinces, Liaoning and Inner Mongolia, have admitted to falsifying key economic indicators since January 2017, suggesting that the

situation may, in fact, be worse ([Global Times](#), January 11).

In December, famed Tsinghua University Sociologist Sun Liping (孙立平) visited rural Heilongjiang for vacation. Noting the emptiness of these once vibrant farming areas, he argued that in addition to Heilongjiang's struggling pension plan, the province also faces demographic decline through migration, both from rural areas to urban areas and from the economically depressed province to other areas in China ([Weixin](#), December 19, 2017). Looking ahead, Professor Sun suggests that Heilongjiang's problems with pensions and social security may be a "prelude" to a national crisis. "The problems now facing Heilongjiang are ones that [the rest of China] will encounter in a few years."

Professor Sun is not alone in his concern. *People's Daily* quoted Qian Xueming, a delegate to the Chinese People's Political Consultative Conference (CPPCC) from Guangxi province as saying that China's comparatively low per-capita GDP will "result in insufficient government public financial support for the elderly, limited capacity for the elderly to purchase pension services, and the development of the pension services face many practical problems and constraints" ([People's Daily](#), January 17).

Addressing this mounting crisis will require significant action at the national level. In his 19th Party Congress Report, Xi Jinping stated that to address these challenges a "strategy for a healthy China" that includes expanded study of population aging and construction of more robust pension and healthcare systems

([Xinhua](#), October 27, 2017). Echoing Xi, in mid-January Li Bin (李斌), the Chairman of the National Health and Family Planning Commission (NHFPC), argued that by taking steps to mitigate the effects of population aging (particularly by improving older peoples' participation in the labor force) will help "extend the period of strategic opportunity" (延长重要战略机遇期) for China. In essence, China sees its looming population crisis as the end of the window to accomplish important national goals such as improving the economy, and the military to the point where China's future can be guaranteed in spite of demographic barriers. Li went even further in linking security with health and social security, stating "This is a prerequisite for safeguarding national security and social stability" ([People's Daily](#), January 12, 2017).

Chinese officials and public intellectuals are currently debating how best to create a robust system able to cope with population and healthcare issues. A variety of plans have been suggested, ranging from entirely-state-supported systems to a hybrid of public and private insurance. Others have argued that the current system could be made more efficient through Internet-based technologies under the umbrella of "Internet+", an economic initiative to harness new technologies with existing industries ([People's Daily](#), January 12, 2017). It is hoped that some combination of these plans will help China transition to more affordable, comprehensive social safety net that is ready to cope with the large elderly population that is likely to dominate China by mid-century.

Adapting to an older population is just one of several important trends that the Chinese

Communist Party is working to adapt to. The message at the heart of Xi Jinping's 19th Party Congress address is a shift in the CCP's focus from delivery of rapid economic development to more effective governance. While the former will remain important to the CCP's immediate success, improvement in the latter is vital to its long-term survival. Structural characteristics of the Chinese economy—cheap labor, a need for infrastructure, and untapped potential in household consumption—have thus far been main drivers of growth.

To survive the next two decades of greying and fading, new pillars will have to be erected to continue expanding the economy while ensuring social safety nets and healthcare. Chinese leaders understand population aging as a strategic challenge. Without adequate preparation, China will be a much weaker, poorer state by mid-century.

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## The Xi Jinping Faction Dominates Regional Appointments After the 19th Party Congress

By Willy Lam

In mid-January, the Chinese Communist Party further confirmed Xi Jinping's status as the

Major Provincial Personnel Movements Since the 19th Party Congress			
		<i>New Position</i>	<i>Previous Post</i>
Wang Dongfeng	王东峰	Hebei PS	Tianjin Mayor
Chen Qiufa	陈求发	Liaoning PS	Liaoning Governor
Li Qiang	李强	Shanghai PS	Jiangsu PS
Lou Qinjian	娄勤俭	Jiangsu PS	Shaanxi PS
Yu Weiguo	于伟国	Fujian PS	Fujian Governor
Li Xi	李希	Guangdong PS	Liaoning PS
Hu Heping	胡和平	Shaanxi PS	Shaanxi Governor
Tang Yijun	唐一军	Liaoning Governor	Zhejiang Deputy PS
Zhang Guoqing	张国清	Tianjin Mayor	Chongqing Mayor
Tang Liangzhi	唐良智	Chongqing Mayor	Chongqing Deputy PS
Liu Guozhong	刘国中	Jilin Governor	Shaanxi Governor
PS = Party Secretary			

second-most powerful politician since Chairman Mao Zedong by enshrining “Xi Jinping Thought on Socialism with Chinese Characteristics for a new era” in the State Constitution. This followed Xi Thought’s insertion into the CCP Constitution at the 19th Party Congress in October ([People’s Daily](#), January 24; [Radio Free Asia](#), January 19). Since the CCP’s foundation in 1921, no leader other than Mao has earned such an elevated place in the party pantheon. In Chinese elite politics, however, what matters most is whether a paramount leader can fill senior positions in the Party and the People’s Liberation Army (PLA) with his allies and cronies.

In the run up to and at the 19th Party Congress, Xi appointed dozens of his protégés to the Politburo as well as top Party posts such as the heads of the Central Committee General Office, the Organization Department and the Propaganda Department ([BBC Chinese](#), October 25, 2017; [HK01.com](#) [Hong Kong], October 25, 2017). Moreover, in the wake of the massive restructuring of the PLA command-and-control apparatus in December 2015 and January 2016, Central Military Commission (CMC) Chairman and Commander-in-

Chief Xi named trusted generals to scores of senior military slots. The purge of “enemy factions” in the PLA was completed with the arrest early this month of former Chief of the General Staff General Fang Fenghui on alleged corruption. Fang was linked to the two “big tigers” of the PLA, former Central Military Commission vice-chairmen Generals Guo Boxiong and Xu Caihou, who were arrested under Xi’s or-

ders in 2015 ([Xinhua](#), January 9; [Global Times](#), January 9). In the New Year, Xi moved to further consolidate his hold over the military through the virtual merger of the PLA and the quasi-military People’s Armed Police. The PAP, which had been under the dual control of the CMC and the State Council since its founding in 1982, will henceforward report only to the CMC ([Apple Daily \[Hong Kong\]](#), December 27, 2017; [Oriental Daily \[Hong Kong\]](#), November 5, 2017).

What is perhaps even more significant is that after the 19th Party Congress, the “core leader” and *zuigaotongshuai*

(最高统帅; “supreme commander”) has been filling top regional posts—the party secretaries, governors and mayors of important provinces and cities—with members of the so-called Xi Jinping Faction. Reshuffles have also taken place at the vice-governor level or equivalent in almost all of China’s 31 major administrative districts ([China News Service](#), January 7). The Xi Faction refers mainly to Xi’s subordinates, associates and followers when he served in Fujian (1985-2002), Zhejiang (2002-2007) and Shanghai (2007). Sub-sets of

the Faction consist of cadres who have worked in his home province of Shaanxi, as well as graduates of Tsinghua University, Xi's alma mater. Shaanxi-related officials have gained Xi's trust through taking good care of the many members of the Shaanxi-based Xi Clan (See [China Brief](#), June 9, 2017). This will ensure that Xi will be spared the conundrum that has bedeviled generations of top leaders, namely "orders cannot go beyond the Zhongnanhai [party headquarters] to the rest of the country."

These appointments have confirmed the fact that the Xi Faction is now the most dominant clique within the higher echelons of regional administrations. Highest-ranked Xi cronies who have benefitted from the latest reshuffles are Shanghai Party Secretary Li Qiang (born 1959) and Guangdong Party Secretary Li Xi (1956). A former party secretary of Jiangsu, one of China's richest provinces, Li Qiang spent the bulk of his career in Zhejiang. He was the party secretary of the "quasi-capitalist haven" of Wenzhou and secretary-general of the provincial party committee when Xi was party boss of the same province. Li Xi served in Shaanxi from 2004 to 2011, during which he cultivated good ties Xi's relatives in the central China province. Both were inducted into the Politburo at the 19th Party Congress. Another Shaanxi alumnus who has made good is Wang Dongfeng (1958), who was based in Xi's native province from 1981 to 2004. He was named Deputy Party Secretary of Tianjin in 2013 and Mayor of the metropolis in early 2017. Shortly after the 19th Party Congress, Wang was promoted Party Secretary of Hebei Province ([Caixin.com](#), January 4; [Ming Pao \[Hong Kong\]](#), January 1; [People's](#)

[Daily](#), November 1, 2017; [South China Morning Post](#), October 29, 2017).

Yet the biggest contingent of Xi Faction affiliates who have been rewarded with promotions comprises his underlings and associates in Fujian and Zhejiang. Take, for example the newly appointed Fujian Party Secretary Yu Weiguo (born 1955). Yu began his career in Fujian in 1995 as Assistant Party Secretary of the port city of Xiamen, which is also where Xi served when he first arrived in the coastal province in 1985. Yu rose to the position of Xiamen Party Secretary in 2009. From 2013, he climbed the Fujian hierarchy rapidly by becoming first Deputy Party Secretary, then Governor and now Party Secretary. Another fast-rising member of the Xi Faction is Tang Yijun (1961), who was installed Mayor of Chongqing early this month. Tang, who spent almost his entire career in Zhejiang was in charge of the anti-corruption apparatus during the five years Xi was based in the rich coastal province. Last year, Tang attained the rank of Party Secretary of the major city of Ningbo as well as Deputy Party Secretary of the province before his transfer to Chongqing ([Caixin.com](#), October 30, 2017; [Tianjin Radio](#), October 29, 2017).

Also consider the intriguing career of Hu Huping (born 1962), who was appointed Party Secretary of Shaanxi earlier this month. After graduating with a degree in hydraulic engineering at Tsinghua University, he worked in teaching and administrative posts at China's premier institute of learning until he became Party Secretary of Tsinghua from 2008 to 2013. Hu was transferred to Zhejiang in 2013, where he served for two years as Director of the provincial Organization Department. He



was then promoted to be Deputy Party Secretary of Shaanxi in 2015, after which he rose rapidly through the ranks to become the province's No. 1 cadre ([Singtao Daily \[Hong Kong\]](#), October 30, 2017; [CCTV.com](#), October 29, 2017).

Apart from Xi's protégés and cronies, a number of newly elevated cadres have backgrounds in the defense, aerospace and high-tech sectors. This tallies with Xi's belief that there should be a symbiotic relationship between the civilian and military sectors (See [China Brief](#), October 26, 2014). One of the most famous members of this so-called Defense-Aerospace Faction in party politics is Zhang Guoqing (born 1964), who was transferred early January from Mayor of Chongqing to Mayor of Tianjin. An electrical engineer by training, Zhang spent almost his entire career at the China North Industries Group Corp (Norinco), which is China's largest arms manufacturer. Nicknamed the "young marshal of the defense industry," Zhang became a Vice-President of Norinco in 1996, when he was barely 32-years-old. After serving as Norinco's President from 2008 to 2013, he was transferred to Chongqing as Deputy Party Secretary, and later, Mayor ([Economics Daily](#), January 2; [Lianhe Zaobao \[Singapore\]](#), January 1).

Equally meteoric is the career of the new Party Secretary of Liaoning Chen Qiufa (born 1954), who worked for decades in the defense and aerospace establishment. While he was trained in electrical engineering at the National Defense University, Chen held posts in the administrative and disciplinary fields at the now-defunct Ministry of Aerospace Industry, the China Aerospace Science and

Technology Corporation, and the Commission for Science, Technology and Industry for National Defense (COSTIND). From 2000 to 2013, he was Vice-Minister at the Ministry of Industry and Information Technology (MIIT), which has close ties to the military R&D establishment. Chen was appointed Deputy Party Secretary of Liaoning in 2015. He subsequently became governor, and early this month, Party Secretary of the northeastern province ([Ming Pao](#), October 1, 2017). Another ex-MIIT technocrat who has won Xi's favor is Lou Qinjian (1956), who was MIIT Vice-Minister from 2008 to 2010. Previously, Lou, who has a doctorate in computer science, served in research and administrative positions at the now-defunct Ministry of Electronic Industry (1982-1998) and the Ministry of Information Industry (a forerunner of MIIT) from 1998 to 2008. Transferred to Shaanxi as vice-governor in 2010, Lou rose to the top post of Party Secretary of the province in 2016. He was transferred to Jiangsu one month after the 19th Party Congress ([People's Daily](#), January 23, 2018; [Jiangsu Party Committee News](#), October 27, 2017).

One major takeaway of these personnel developments is that several Sixth Generation (roughly defined as cadres born in the late 1950s to the late 1960s) rising stars have been identified who could become candidates as Xi's successor. Until the 19th Party Congress, attention had been focused on the Chongqing Party Secretary Chen Min'er (born 1960), who seemed to enjoy the patronage of Xi. However, apart from involvement in poverty relief when he was a top official in impoverished Guizhou Province (see [China Brief](#), December 8, 2017), Chen's career lacks involvement in important policies that typically mark

a national-level cadre. Chen's 6G competitors include Shanghai Party Secretary Li Qiang (1959), Shaanxi Party Secretary Hu Heping (1962), Hebei Party Secretary Wang Dongfeng (1958), Tianjin Mayor Zhang Guoqing (1964), Chongqing Mayor Tang Liangzhe (1960) and Liaoning Governor Tang Yijun (1961). 6G rising stars coming from the party system are represented by Ding Xuexiang (1962), the Head of the Personal Office of President Xi Jinping (国家主席办公厅主任), who was promoted to the Politburo with the substantive post of Director of the Central Committee General Office at the 19th Party Congress ([Oriental Daily \[Hong Kong\]](#), October 24, 2017; [Ming Pao](#), August 15, 2017).

The fact that the seven-member Politburo Standing Committee endorsed by the 19th Party Congress did not contain any 6G potential successors is a good indication that Xi (born 1953) plans to remain paramount leader at least until the 21st Party Congress in 2027. It is, however, likely that at the 20th Party Congress scheduled for 2022, at least one 6G cadre will be inducted into the PBSC as heir-apparent to Xi. In the well-established party tradition, this leader-in-waiting will undertake a five-year apprenticeship for the post of General Secretary. Given that it is also an ingrained CCP convention that the General Secretary must have ample experience serving in local-level administration, Xi's successor could well emerge among the 6G regional cadres elevated in the past few months. Apart from achievements in traditional areas such as GDP growth, these competitors for Xi's mantle must above all demonstrate that they would profess total and unqualified fealty to what his admirers call "the Mao Zedong of the 21st Century."

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## Shipping Finance: China's New Tool in Becoming a Global Maritime Power

By Virginia Marantidou

China began 2018 by making important strategic moves in the shipping industry. On January 10, COSCO Shipping Development, COSCO Shipping's leasing finance arm announced a plan to establish a shipping fund with state-controlled China Cinda Asset Management Co., Ltd. to finance ship assets ([Splash24/7](#), January 10). COSCO Shipping, the product of a gigantic merger of Chinese shipping behemoths, China Ocean Shipping Company and China Shipping Company, last summer acquired Hong Kong's Orient Overseas International, becoming the world's third largest container ship fleet.

These strategic moves to become dominant in the shipping industry are reflective of the industries' broader importance to China's economy. Around 90 percent of global trade travels by sea ([International Chamber of Shipping](#), 2017). The world's largest exporter of

goods, China relies on seaborne imports for close to 70 percent of its energy needs. The Maritime Silk Road—one leg of the trans-Eurasian "Belt and Road Initiative" is a network of Chinese-funded infrastructure projects along global shipping routes. A less studied, but perhaps more important contributor to Chinese maritime dominance is shipping finance. While the first one has monopolized the interest of policy makers, investors, and maritime experts, China's growing shipping portfolios and its role in shipping finance is largely overlooked outside the shipping industry circles. When viewed together, they present a clearer view of China's impact on global maritime supply chains.

### China's New Role in Shipping Finance

In 2009, the global financial crisis and fall off in global trade gutted the shipping market. The failure of prominent global financial institutions and the subsequent lack of trade finance and liquidity distressed the overexposed shipping portfolios of the Western banks, making shipping loans either unavailable or more expensive. The crisis offered an opportune moment for Chinese banks to step in and build new shipping portfolios or expand existing ones, allowing China to expand its fleet and build the foundations for international partnerships or even dependencies that would that would empower it on the global maritime arena.

Before the global financial crisis, Chinese shipping lending was domestically focused, providing financial support mainly to Chinese shipbuilders and shipping companies. At the time, not a single Chinese bank had a place among the top 15 global shipping lenders

([OECD](#), November, 2015). Ten years later, the Bank of China, Export- Import Bank of China (China Eximbank) and China Development Bank (CDB) have not only made it to the top 15, but Eximbank and CDB occupy the global second and third place respectively ([Petrofin](#), July 2017).

Chinese shipping lending has undergone massive transformation, rapidly becoming outward looking and more sophisticated. Experts argue that during their initial steps in international lending Chinese banks lacked experience and had to deal with strict regulations imposed by the People's Bank of China, time-consuming internal processes, and heavy external bureaucracy. However, their appetite for doing business, prompted also by a market gap, quickly led to significant improvements and streamlining in their shipping loans structures. These improvements have made their sought-after lenders to some of the world's largest shipping companies, such as Maersk Line, BP shipping, and Mediterranean Shipping Company. **[1]** At the same time, while traditional forms of lending like bank loans still dominate the market, alternative lending such as leasing is becoming a leading part of China's shipping finance sector. From commercial banks such as the Industrial and Commercial Bank of China (ICBC) and Bank of Communications to shipbuilders and shipowners such as China State Shipbuilding Corporation (CSSC) and COSCO Shipping, 23 financial institutions and relevant company divisions are involved in ship lease finance, with a portfolio of 989 vessels valued at \$16.5 billion ([Week in China](#), June, 2017).



Entry into the shipping finance industry has very much been facilitated by market factors, including the retreat of Western banks, the abundance of Chinese capital and the fact that it had not been tied to existing shipping portfolios. However, a strategic sector like shipping inevitably falls under close government supervision. With a declining domestic shipbuilding industry, Chinese banks have been given clear directions to assist and subsidize.

In January 2017, in a statement published by the Ministry of Industry and Information technology, six ministries expressed support to the shipping industry while they encouraged financial institutions to support the sector with loans and financing ([miit.gov.cn](http://miit.gov.cn), January 2017). Additionally, the China Banking Regulatory Commission (CBRC) has encouraged financial institutions to support the domestic shipbuilding industry and exports of domestically-built ships ([Splash247](http://Splash247), September, 2017; [Seatrade Maritime News](http://Seatrade Maritime News), May 2017).

For an emerging economy like China it comes as no surprise that the most prominent lenders are either in themselves export credit agencies (ECAs) such as the China Export & Credit Insurance Corporation (Sinosure) and China Eximbank or ECAs-supported banks ([Marine Money](http://Marine Money) [paywall], June 2014). ECAs are public institutions that facilitate financing for domestic exporters and investors who do business overseas. As Valentino Gallo, Global Head of export and agency finance at CITI has written, "ECAs operate as a tool of economic policy and have a mandate to support exports" ([Citibank](http://Citibank), March 2014). Chinese ECA-

backed lenders prioritize lending to international firms who intend to build their ships in Chinese yards.

Similarly, as the Chinese government aspires to gain better control over how the country's trade is transported, the goal of expanding its merchant fleet is a natural outgrowth. Beijing's "national oil, nationally carried" campaign is indicative of this goal. In the early 2000's due to economic and security considerations, Beijing focused its efforts on expanding the national oil tanker fleet by encouraging Chinese shipping firms to invest more in larger tankers. In 2006, Chinese analysts expected that their country will need more than 40 large crude carriers (VLCCs) in order to be able to transport up to 50 percent of its oil imports and with the aim to further increase numbers and carry up to 70 percent by 2020. [2] China is on track to surpass this goal. A newly established subsidiary of China Merchant Energy Shipping, China VLCC, possesses 42 operational VLCCs, making it the world's largest oil tanker operator. Eleven more are on order ([IHS Fairplay](http://IHS Fairplay) [paywall], September, 2017).

Shipping finance appears to be an excellent tool to carry out these two policy goals: providing support for domestic shipyards and enlarging the Chinese merchant fleet to better control trade.

### What Does this Mean for the World?

China's shipping finance has largely benefited the global shipping industry, especially at a time when the sector experiences a dearth of funds. However, as Chinese-led shipping

portfolios are further expanding, and as international shipping firms are looking more closely into China to fund their operations, ownership of the global shipping fleet seems to be shifting to Chinese hands.

This is particularly true with Chinese leasing finance, which is gaining ground over traditional bank lending because of its higher Loan to Value and longer amortization period. Leasing deals with Chinese lenders take place under two models: "the financial lease" model where the lessee is the typical manager of the assets and can take ownership at the end of the lease and the "operating lease" model where the lessor keeps ownership of the vessels at the end of the lease ([Marine Money](#), January 2017 [paywall]). Chinese lenders frequently offer sale-and-leaseback deals which entail lessees first selling their vessels to leasing companies and then lease them back on normal loan rates. Leasing finance is fast turning Chinese banks and non-shipping firms into shipowners, enlarging China's merchant fleet and enhancing its shipping power.

The case of *Vale vs. China* from a decade ago reveals how leverage can be exerted to serve specific policy goals and economic interests. When Brazilian iron ore giant Vale, a key exporter to China began establishing its own dry bulk fleet of 14 ships, it contracted the majority of the work to Chinese shipyards with Chinese banks financing the construction. However, during their first return voyage to China loaded with ore, Valemax carriers were forbidden from docking in Chinese ports on safety grounds due to their large size. Sources claim that Vale was targeted by private Chinese shipping firms under an extension of the "national oil, nationally carried"

campaign and with the blessings of the Chinese government ([Week in China](#), July 2017). In the end Vale sold the unprofitable ships to Chinese shipping firms and banks. Twelve of them were then leased back to Vale on long-term contracts, and Chinese ports opened for the now-Chinese-owned Valemax carriers ([Financial Times](#), July 2015).

Most importantly, the Vale case demonstrates how controlling key parts of the supply chain allows a country to manipulate the entire supply chain. From the financing and building of the vessels, to controlling of the ports and the sale and lease back deal, China not only shielded its own maritime industry from strong competition but also strengthened control over one of its biggest sources of iron ore imports.

This will be no less true as China is moving forward with its Belt and Road initiative. BRI aims to create an overarching framework, which will serve these policy objectives including the direction of shipping finance to support Chinese economic interests. Therefore, looking into China's growing shipping portfolios along with the BRI infrastructure projects, it seems evident that in the near future more of the global seaborne trade will traverse via Chinese-funded ports, on Chinese-funded, Chinese-owned or Chinese-built vessels, providing China with a strong oversight over the global supply chains and a strong leverage to direct those according to its interests.

China's growing involvement in shipping is setting the foundations for future powerful partnerships in the sector. While European

banks remain Greek shipping's main financiers, holding 80 percent of overall Greek loans ([Petrofin](#), May, 2017), Greek shipowners are increasingly seeking cooperation with China, especially through leasing. The Greek merchant fleet remains the largest in numbers, size and value, and with a large appetite for more funds. China's fleet is currently the third largest and growing, and China is likely to gain a larger market share in shipping finance and has an objective to have more control of the global trade routes ([Hellenic Shipping News](#), March 2016). Greek ship owners have been traditionally engaged with China and their ties go back decades. Greek ship owners were also the ones who brought Chinese investors into the Piraeus port. [3] It only makes sense that deepening further Sino-Greek maritime cooperation remains a shared interest. As Katerina Fitsiou from XRTC has contended "Greek ship-owners are the taxi drivers of shipping and China is a superpower increasing their fleet, controlling seaborne trade, having huge banks to finance any project." Therefore, it is important to monitor closely these synergies as they are poised to shape the future of shipping and global trade routes.

## Conclusion

Despite expectations of a rebound in the price of shipping, shipping finance is expected to remain a limited business for Western financial institutions. This will allow Chinese banks to expand operations and establish themselves as global players in the shipping sector. China already possesses the third largest merchant fleet. Given its three-fold expansion in the last decade, a growth rate of seven percent for the past two consecutive years and

the central government's policy, this expansion is expected to continue ([Hellenic Shipping News](#), March 2017). This entails greater shipping power for China, which coupled with funding, and building of maritime infrastructure across the world will give it greater leverage and influence over the global shipping routes, and greater control over global supply chains.

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## Note:

1. Interview with Greek Shipping Consultant, Dec 2017- Jan 2018.
2. Andrew Erickson and Gabe Collins, ["Beijing's Energy Security Strategy: The Significance of a Chinese State-Owned Tanker Fleet"](#), *Orbis*, 2007.
3. Asteris Houliaras and Sotiris Petropoulos, ["Shipowners, Ports and Diplomats: the Political Economy of Greece's relations with China"](#), *Asia Europe Journal* 2013.

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## The United Front Work Department in Action Abroad: A Profile of The Council for the Promotion of the Peaceful Reunification of China

By John Dotson

Throughout 2017, Australia and New Zealand were roiled by controversies surrounding alleged attempts by pro-Beijing lobbying groups to influence government policies. In Australia, one of the foremost figures at the center of these controversies has been Huang Xiangmo. Huang, who first became wealthy as a property developer in the southern Chinese city of Shenzhen, built a Sydney-based real estate empire after immigrating to Australia in 2011. Investigations by Australian reporters have revealed that Huang became a major donor in Australian politics, donating nearly \$2.7 million Australian dollars between 2012 and 2016 to both the Liberal and Labor Parties ([Sydney Morning Herald](#), 2017). Huang's role as a donor became particularly controversial after it was revealed that, in 2016, he had attempted to use a large promised donation to the Australian Labor Party to influence that party's position regarding PRC territorial claims in the South China Sea ([ABC](#), November 29, 2017).

In addition to his roles as a successful businessman and an influential donor behind the scenes of Australian politics, from 2014 through 2017 Mr. Huang was also the president of the Australian national branch of the

Council for the Promotion of the Peaceful Reunification of China (CPPRC). Aside from Mr. Huang's lobbying efforts of, the CPPRC has remained active in cultivating Australian politicians and public opinion in other ways, such as its October 2017 sponsorship of an event in the Tasmanian Parliament intended to promote PRC-Taiwan unification ([ABC](#), December 4, 2017). In statements to the Australian media, Mr. Huang has described his group as "an autonomous, non-government organization" that represents the ethnic Chinese community, and denied that it maintained ties to the Chinese Communist Party ([Sydney Morning Herald](#), 2017). The group's website echoes this message, describing itself as a "non-government, non-profit, community-based organization" with a mission to "foster and facilitate peaceful dialogue... for the peaceful reunification of China" ([Australian CPPRC Website](#)).

### The Activities of the CPPRC Abroad

Although the CPPRC has gathered greatest recent attention in Australia, chapters of the organization exist throughout the world, in countries as wide-ranging as the Philippines and Namibia ([Qingnian Wang](#), May 1, 2017; [People's Daily Online](#), November 29, 2004). The group has emerged in recent years at the forefront of groups representing, or claiming to represent, ethnic Chinese communities abroad; and has also become one of the PRC's primary institutions for organizing and mobilizing the international Chinese diaspora in support of PRC policies. The organization maintains numerous branches in the United States, including chapters in New York, San Francisco, and other major cities. The national headquarters branch in the United States is

the National Association for China's Peaceful Unification (NACPU), located in Washington, D.C. [1]

In official statements, the CPPRC takes great pains to present itself as a private organization, sharing commonalities with non-governmental organizations (NGOs) created in other countries to pursue civic-oriented causes such as environmental activism, political mobilization, and humanitarian relief. The organization also takes pains both within China and without to present itself as one that represents broad sections of Chinese society outside of the Communist Party, stressing that it involves "people from various democratic parties as well as non-party affiliated people," and that it is a "national organization formed of volunteer members from all walks of life, with an independent legal status" ([China Council for the Promotion of Peaceful Reunification](#), April 23, 2008).



Members of the newly-established Mozambique chapter of the CPPRC pose for a photo at the group's inaugural event in Maputo, Mozambique, June 18, 2017. (Photo source: [Xinhua](#))

However, such statements are misleading, and a cursory examination of the organization's leadership structure reveals that the

CPPRC is directly subordinate to the Communist Party's United Front Work Department (UFWD). The Chairman of the CPPRC is Yu Zhengsheng, and its executive vice-chair is Sun Chunlan ([CPPRC Homepage](#)). Until their formal retirements at the 2017 CCP 19th Party Congress, these two individuals were, respectively, the member of the Standing Committee of the Politburo responsible for the United Front policy portfolio, and the director of the UFWD. This continues a long-standing practice by which these two senior-most positions in the CPPRC are occupied by the Politburo's United Front policy czar, and the UFWD's senior official. [2]

Most clearly of all, on the UFWD's official Chinese-language webpage ([www.zyztzb.gov.cn](#)), the Council for the Promotion of the Peaceful Reunification of China is identified on a list of prominent organizations that fall within the UFWD's "system of united front work units" (统战系统单位 / *tongzhan xitong danwei*). Pursuant to its role as a subordinate entity of the UFWD, the Council has acted in the past as an agent for building UFWD contacts among senior-ranking military officers in Taiwan ([China Brief](#), October 14, 2011).

The CCP United Front Work Department is an organization that plays a major role in directing Beijing's efforts to influence public opinion and government policy in countries throughout the world ([Wilson Center](#), September 18, 2017; [Financial Times](#), October 25, 2017). In the past, the UFWD has generally sought to keep a low international profile, and has remained obscure to most beyond the ranks of China-watching specialists. However, the organization now appears to be adopting a more prominent profile under Xi



Jinping ([China Brief](#), December 22, 2017). This has coincided with a more aggressive effort by PRC state-affiliated entities to influence political figures and policy debates in other countries, and the efforts of the CPPRC in the United States and elsewhere closely match this pattern.

The Washington, D.C.-based chapter of the CPPRC has issued messages closely aligned with official PRC propaganda themes related to Taiwan and other issues, as seen in this statement:

*Separatism in Taiwan is increasingly becoming [an] extremely unstable and dangerous factor to threaten the peace in [the] Asia-Pacific region... [We] appeal that the U.S. government and Congress should insist on our "One China" policy, on opposition against so-called "Taiwan independence," and on... no involvement in [a] possible war across the strait caused by the provocation of separatism in Taiwan. We also call for [the U.S. Government] not to sell any weapons to Taiwan, which increases the crisis across [the] Taiwan Strait and indirectly encourages separatism ([National Association for China's Peaceful Unification \[USA\]](#)).*

To date, no scandals have yet come to light in the United States tying CPPRC affiliates to the sorts of bare-knuckled influence peddling revealed in the Oceania region in 2017. Thus far, the efforts of NACPU to cultivate American politicians appear to be modest, and well within the conventional bounds of what U.S. civil associations might do to influence politi-

cal leaders. It has, for example, provided Congressional offices with free copies of books providing a pro-PRC slant on cross-strait issues and sent letters opposing draft Congressional resolutions that would criticize Beijing's crackdowns on ethnic unrest in Tibet and other areas (see: [NACPU](#), January 28, 2008; [NACPU](#), April 15, 2008).

Additionally, most of the online presence of NACPU and other U.S.-based CPPRC affiliates is in Mandarin, rather than English—suggesting a primary focus on molding opinion within the ethnic Chinese community—rather than an aggressive effort to influence public opinion or government policies on a broader level. It is also likely that many members of these groups see their membership primarily in the opportunistic terms of networking, and of signaling loyalty to the Chinese government—with the potential benefits that may follow—rather than as a means to effect substantive change in U.S. policy.



*Participants in an annual conference organized by the Washington, D.C.-based National Association for China's Peaceful Reunification (the leading U.S. chapter of the CPPRC) pose for a group photo on January 25, 2018. (Source: [NACPU website](#)).*

However, the themes in these communications, as well as those in NACPU-sponsored meetings and internet postings, closely parallel the major themes promoted by PRC spokespeople and state propaganda outlets regarding Taiwan, the South China Sea, and other contentious issues. [3] Additionally, there is ample evidence that the CPPRC is a thinly disguised front organization managed by the CCP United Front Work Department, and that it serves as a mechanism for promoting PRC state-sanctioned propaganda messages under the guise of an independent civic organization. Furthermore, the increasingly prominent role of CPPRC affiliates as self-appointed spokesmen for ethnic Chinese communities outside of China, and their role in mobilizing those communities in support of PRC policies, raises concern as to whether dissident viewpoints in those communities could be increasingly drowned out or intimidated into silence.

## Conclusion

The CPPRC is only one example out of many synthetic civic groups managed by Beijing, which have long been employed by the ruling Chinese Communist Party to pose as nominally independent outlets that campaign in support of PRC policies. As the UFWD assumes an ever-more influential role in shaping the foreign policy narratives of the PRC, the Council for the Promotion of the Peaceful Reunification of China and other front organizations are likely to also assume a larger role as outlets for the propaganda themes of their parent organization. Rights to free speech and free association by U.S. citizens and legal

residents should always be respected. However, those working in the fields of politics, journalism, and international affairs should remain cognizant that nominal civic groups such as the CPPRC may not be as independent as they appear on the surface, and that one need not be a government official to be a spokesperson for the Chinese Communist Party.

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## Notes:

1. Although branches of the CPPRC outside of China sometimes use different English-language variations of the organization's name, their Chinese-language name remains identical to that of the parent organization in China [中国和平统一促进会 / *Zhongguo Heping Tongyi Cujin Hui*]. For two such examples, see the home page of the Washington, D.C.-based "National Association for China's Peaceful Reunification" (<http://www.nacpu.org/aboutus.html>); and the home page of the San Francisco Bay Area-based "Chinese for Peaceful Reunification – Northern California" (<http://www.cpu-nc.org>).
2. For example, in the arrangements following the 17<sup>th</sup> CCP National Party Congress of 2007, the United Front

policy portfolio in the Politburo Standing Committee was held by Jia Qinglin, who concurrently served as the chairman of the CPPRC; and Du Qinglin, the director of the CCP UFWD, also held the position of executive vice-chair of the CPPRC. See: [China Brief](#), October 11, 2011.

3. In a web posting (in Mandarin) summarizing NACPU's January 25, 2018 annual conference in Washington, D.C., the organization uses language clearly evocative of PRC state propaganda. It states that "the goal of all federated members of the Council to Promote the Peaceful Reunification of China throughout America is to resolutely oppose 'Taiwan Independence,' 'Two Chinas,' 'One China and One Taiwan,' and other activities intended to split China, as well as to promote the realization of the peaceful reunification of China at the earliest date." ([National Association for China's Peaceful Reunification](#), January 25, 2018).

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## Beyond Bitcoin: Could China Embrace Blockchain for Defense and Security Applications?

By Wilson VornDick

Since January 2016, bitcoin (比特币) has skyrocketed from less than \$1,000 and nearly peaking at \$20,000 in December—a 2,100 percent increase. Despite its volatility, euphoria over bitcoin along with other cryptocurrencies (加密货币) has spread across the globe and nowhere has this been more evident than China. The surge in trading volume of bitcoin reached such high levels in 2016 that it may have contributed to a major outflow in China's foreign reserves when they shrank nearly 8 percent to \$3 trillion. In the first half of 2016, up to \$400 million worth in yuan was spent on initial coin offerings (ICOs) in China and it is estimated that over \$20 billion around the globe was tied to bitcoin the whole year ([People's Bank of China](#), September 4, 2017; [HBR](#); February 28, 2017).

Since bitcoin debuted in 2009, a smorgasbord of digital currencies has sprung up, quickly followed by a surge of Chinese entrepreneurs looking to make it rich in the digital currency business. However, despite official concern about cryptocurrency, the technology that underpins bitcoin, known as distributed ledger technology (分布式账本技术) or blockchain (区块链), is being evaluated for application by other Chinese industries and sectors. Specifically, it has piqued the interest of a small group of cyber security experts and media in China that view blockchain as holding

great promise for application across China's broad national security interests and apparatus.

### **Defense and Security Uses for Blockchain Despite the Bitcoin Crackdown?**

Even though China has quickly become a global leader in cryptocurrencies, fear of the currency's potential use in illicit purchases on the dark web, money laundering, and offshoring of badly needed currency have left Chinese authorities unnerved. As a result, the government began cracking down in the last quarter of 2017. In September, a notice was issued to shutter cryptocurrency exchanges, restrict any new ICOs, and ban the trading of digital cryptocurrency under the pretext of reducing financial risks ([People's Daily](#), November 9, 2017; [People's Bank of China](#), September 4, 2017).

On January 3, the *People's Daily* warned that bitcoin was a "bubble" reminiscent of the 17th century Dutch Tulip craze, considered the first recorded speculative bubble ([People's Daily](#), January 3, 2018). A few days later, officials asked that all Chinese make an "orderly exit" from bitcoin trading and related activities ([China Daily](#), January 5). As a result of the crackdown, some bitcoin entrepreneurs have moved their operations out of China.

Meanwhile, the rest of the world is charging ahead with new and innovative ways to leverage the blockchain. One Chinese website points out that "blockchain technology has gradually extended from a single digital currency to smart contracts (智能合约), Internet of Things (IoT) (型的物联网), e-commerce, social communications, file storage, and other

fields" ([China Military Online](#), June 2, 2017). More importantly, blockchain has gained the attention of the financial and commercial sectors because it is viewed broadly as a "trust-maker" (信任制造机) that could secure investment vehicles, maintain credit histories, improve quality control, and provide consumer guarantees ([China News](#); June 2, 2017).

Indeed, many of these uses are interchangeable with defense and security priorities. A few nations, such as Estonia, an early pioneer in the technology and a member of NATO, as well as the American Defense Advanced Research Project Agency (DARPA) are seeking ways to employ blockchain. One groundbreaking proposal in *National Defense Science and Technology (NDST)* in 2016 and a concentrated release of associated articles on June 2, 2017 asserts that China consider blockchain in military and security operations.

While these articles are in no way an official indication of China's current or future use of blockchain, the articles do offer a glimpse of the novel ways in which this technology could be leveraged. Moreover, it would seem that the technology would align with the civ-mil application goals tied to the broad *informatization* (信息化) campaign enshrined in China's *2015 Military Strategy* and *13<sup>th</sup> Five-Year Plan for Informatization* (2016-2020) among others ([Defense White Paper](#), [State Council](#); accessed January 18, 2018). Per the *2015 Military Strategy*, China senses its cyber vulnerabilities and admitted it is "one of the major victims of hacker attacks" ([ChinaDaily](#), May 26, 2015).

But before that proposal and the string of related articles can be assessed, it is integral to

understand some of the key terms and concepts associated with blockchain first. Because of blockchain's novelty, it is vaguely understood and generally regarded as a "black box" (黑箱) both in and outside of China.

### **A Primer on Bitcoin and the Technology Behind It - Blockchain**

The concept of blockchain was first proposed in a 2008 article entitled "Bitcoin: A Peer-to-Peer Electronic Cash System" under the pseudonym Satoshi Nakamoto. [1] Inspired by the 2008 financial crisis, bitcoin was intended as a decentralized currency, unbound to national currency regimes. It was designed as both a digital asset and a payment system that allows users to transact directly without an intermediary through a peer-to-peer or distributed network.

This distributed, public ledger is shared among various participants or nodes. As new transactions, known as blocks, are made and recorded to the shared ledger, they create a chain, hence the name "blockchain." To insure the fidelity of the ledger, the various nodes use a digital signature and run complex algorithms, known as a hash (哈希), to authenticate those digital signatures. Solving this authentication process is called "mining" (挖矿) and results in a proof of work (POW) (矿工工作量的证明). Since mining can require a substantial amount of processing power, personnel, and energy depending on the blockchain size, an incentive mechanism was created to encourage participation in this process, either a set value or percent of the transaction. Oftentimes, miners will join 'pools' (矿池) to combine their resources. This "competitive

mechanism" (竞争机制) creates a dynamic cycle of "competition - verification - synchronization - competition" (竞争-验证-同步-竞争). Once a new block is verified by a majority of the network nodes, a notification is sent and the ledger is updated locally, then the process begins anew.

The complexity of blockchain has multiple advantages: it is decentralized, making it more survivable; totally anonymous, except between the nodes involved; and the rewards process encourages good behavior among the participants. Further, nodes can enter and exit the process as long as the latest ledger is downloaded and processed. Finally, to execute a successful attack on a blockchain, a majority of the ledger must be degraded or controlled, known as the '51 percent' attack, which requires immense resources to be effective. The combination of decentralization, verification and security has attracted interest from both defense and commercial sectors.

### **PLA-Chain - A New Cyber Tool for China?**

The specter of a defense- and security-based blockchain does raise some interesting prospects. Despite the aforementioned Estonian and American experimentations with blockchain, there is, however, a limited amount of authoritative material on the subject in China. One scholarly article, perhaps the first, published in *NDST* in 2016 that proposes the use of blockchain by China's national security interests deserves particular attention. [2] Of the three researchers that contributed to the *NDST* article, each of whom holds a PhD and is focused on cyber security, one in particular stands out: Zhu Qichao. Dr. Zhu Qichao is not only the director of the Center for National



Security and Strategic Studies at the National University of Defense Technology in Beijing, but also a colonel in the PLA and a thought leader in China's artificial intelligence efforts. Last June, he was a guest speaker at the Shangri-La Dialogue and panelist for the "Defense Implications for Emerging Technologies" alongside many other notable defense officials ([ISS.org](http://ISS.org), accessed January 14).

In the article, three main areas of military and security employment were outlined: intelligence operations, weapons life cycle and personnel management, and military logistics. This foundational approach may very well frame future Chinese security-related blockchain endeavors and perceptions.

For intelligence operations, the ability to discretely "pay intelligence professionals and informants" (情报工作绩效激励) is critical. Blockchain allows participants to apply for one or more accounts, regardless of "national and geographical restrictions," with no direct correlation between different accounts. Touting the weapons life cycle and personnel management advantages, blockchain would allow Chinese military and security-related commercial and industrial partners as well as leadership to maintain secure information transfers and communications to include sensitive studies, combat readiness statuses, and production timelines.

Furthermore, blockchain would alleviate three major dilemmas faced by existing paper and electronic records in China: centrally located files that usually lack back-up mechanisms; safe and easy transfer of archival files; and the lack of archival supervision, which, as the arti-

cle noted, "lends itself to tampering and deletion." Finally, as military logistics becomes more "smart" or "intelligent" (智能化军用物流), blockchain can improve the entire logistics enterprise by making it more robust, dynamic, and resilient by creating small, interconnected networks similar to a small IoT (小型的物联网). As a result, this new enterprise is less risky and more survivable since it avoids a "centralized management strategy" that is over-reliant on a few critical information centers or other key geographical sites. The NDST's recommendation was reprised a year later in a slimmed down, summation in *Liberation Army Daily* by Zhang Min. This article gained significant traction as it was widely circulated and republished in a variety of Chinese media outlets to include *Xinhua* ([Xinhua](http://Xinhua), [China Military Online](http://China Military Online), [China News](http://China News); June 2, 2017). In February 2017, an article published in *PLA Daily* suggested that blockchain could even be extended to other areas such as Public Opinion Warfare (舆论战).

## Conclusion

Despite these benefits, blockchain is not a panacea for China's security challenges. As the NDST article contends, significant challenges remain before blockchain could be implemented. First, the issue of confidentiality for the large amount of classified military information and where those "densities" of information would be stored on the blockchain needs to be addressed. Second, constructing these various blockchain would require a substantial amount of resources (power, programmers, processing power, etc.) and dedicated nodes. Third, because blockchain architecture is decentralized, its communications would bypass a centralized server, thereby

raising regulatory and control issues. Finally, the authors allude to the fact that the “liberalism” at the heart of blockchain architecture may be irreconcilable with the degree of control with which Party and military leadership would likely seek to exercise, even though it is not specifically stated in such terms. Regardless of these shortcomings, blockchain is seen as a “disruptive” (颠覆性) tool that will create value for China in the information age.

Blockchain has yet to prove its military and security *bona fides* in China. However, as the technology becomes more mainstream, regulated, and slowly sheds its illicit reputation, it is very likely that its use will proliferate across the public and private sectors in China. Even if China continues its crackdown on cryptocurrencies in the future, the technology behind it has been recognized as having intrinsic value and utility for Chinese defense issues.

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#### Notes:

1. Satoshi Nakamoto, “Bitcoin: A Peer to Peer Electronic Cash System,” (Oct 2008), available at <https://bitcoin.org/bitcoin.pdf>

2. Lian Lin, et al, “Blockchain Technology and Its Potential Military Value [区块链技术及其潜在的军事价值],” *National Defense Science & Technology* [国防科技], vol. 37 no. 2. (Apr 2016); p. 30-34.

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