

THE SUPCHINA RED PAPER

2018 REVIEW, OUTLOOK 2019

THE RECALCULATION

A guide to the trends and stories that mattered most in 2018, and the outlook for business, politics, culture and society for 2019



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I. WHAT SUPCHINA WILL WATCH IN 2019

Trade friction (贸易摩擦 *màoyì mócā*) is one of the Chinese “words of the year” of 2018 as selected by a government language research organization, and it is apposite. But it does not go quite far enough — if I had to choose a word of the year for China, it would be recalculation (重算 *chóngsuàn*).

The year 2018 was the start of a time of reconsideration for China and the countries it deals with. This year, many old certainties and conventions crumbled. It was the 40th anniversary of China’s reform and opening up, but future historians may choose 2018 as the final year of that era.

2018 — THE GREAT RECALCULATION

THE YEAR 2018 BEGAN WITH OPTIMISM among many in technology and venture capital. Artificial intelligence (AI), fintech, on-demand bicycles, a few major initial public offerings (IPOs), and the awesome power of China’s internet giants like Tencent and Alibaba — these were the subjects of excited conversations among investors on both sides of the Pacific.

BUT THE LAST HALF OF THE YEAR HAS BEEN LESS BUBBLY: There is talk of a “venture capital winter,” shares of the major internet companies are down, and in December, there were reports of significant layoffs at several listed tech firms.

CHINA’S PHARMA AND HEALTHCARE COMPANIES THRIVED in 2018. As the government streamlined approval processes for new cancer treatments and other drugs, pharma companies have raced ahead with clinical trials, and investors have placed large bets on healthcare services, genetics, and other hi-tech life sciences.

HOWEVER, SERIOUS PROBLEMS CONTINUE TO

PLAGUE the healthcare sector: This year saw continued patient-on-doctor violence at hospitals; one company manufactured large batches of substandard vaccines; and another produced a blood pressure drug for international distribution that contained carcinogens. Moreover, scientists around the world were appalled by an experiment that reportedly led to the birth of two gene-edited babies.



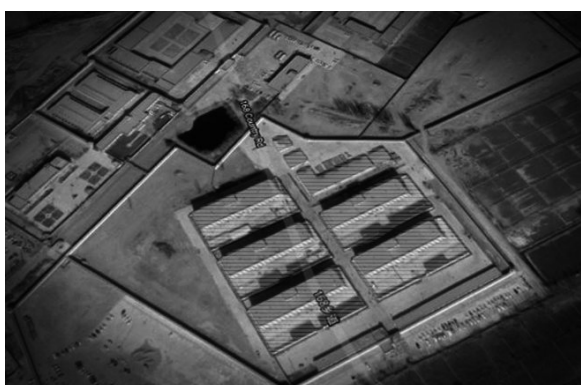
XÍ JÌNPÍNG 习近平 ABOLISHED THE TWO-TERM LIMIT on the presidency. Xi was already general secretary of the Communist Party of China and chairman of the Central Military Commission, the positions that hold the real power, and do not have formal term limits. But the removal of the term limits — a Party convention established by Dèng Xiǎopíng 邓小平 — was shocking, if not surprising. Signs have been there since Xi became gen-

eral secretary of the Party. This year, rule by consensus — which characterized Party leadership in the first 40 years of reform and opening up — died on the 40th anniversary of those reforms.

THE TRUMP ADMINISTRATION DECLARED “COMPETITION” with China as its policy going forward. There is bipartisan consensus in the U.S. about the need to get tough on China, and support from many business leaders, even if no one agrees what exactly should be done. Despite the American president alienating many allies, concern about China’s rise is growing in European capitals and in the other members of the “Five Eyes” — Australia, Canada, the U.K., and New Zealand.

SCHOLARS, JOURNALISTS, AND POLITICIANS IN AUSTRALIA AND NEW ZEALAND, as well as in the U.S. raised the alarm about Chinese Communist Party “influence operations” and espionage. These worries are spreading to Europe and beyond: Beijing angrily denied reports early in 2018 that it had bugged the new headquarters of the African Union in Ethiopia which Beijing funded to the tune of \$200 million.

IN MANY COUNTRIES IN AFRICA AND ON CHINA’S BELT AND ROAD, including Sri Lanka, Malaysia, and the Maldives, civil society actors and leaders spoke out against Chinese projects they say leave host countries saddled with debt, and complained of other exploitative behavior.



A VAST SYSTEM OF SURVEILLANCE AND INTERNMENT CAMPS IN XINJIANG was documented, with compelling evidence, by journalists and scholars in 2018. Elsewhere in China, the repressive nature of Xi’s China was impossible to ignore, even by those most sympathetic to Beijing. Barely a week

went by in 2018 without news of activists being locked up, teachers being silenced, or churches and mosques being demolished.

HONG KONG’S LACK OF AUTONOMY from Beijing became impossible to deny this year, as the Special Administrative Region’s government expelled a foreign journalist, jailed activists, and banned a political party for advocating independence.

#METOO’S VITALITY IN CHINA was surprising, given how effectively the government has crushed other activist movements. Also noteworthy this year was the emergence of a well-organized network of student Marxists at elite universities collaborating with factory workers on labor rights.

TAIWAN HELD LOCAL ELECTIONS — think mid-terms — in November. Voters essentially repainted the map of Taiwan blue from green, or from ruling party Democratic Progressive Party (DPP), which is broadly pro-independence, to the more China-friendly Nationalist Party (KMT). Throughout the year, China has snarled at Taiwan in various ways, signaling Beijing’s unhappiness with the DPP and President Tsai Ing-wen (蔡英文 Cài Yīngwén).

NORTH KOREAN MISSILE TESTS and Donald Trump’s reaction to them alarmed the world at the beginning of the year. But the anxiety ended after the Singapore Summit in June — when Trump effectively folded and ended his “maximum pressure” strategy, and China re-embraced North Korea. The DPRK has not conducted further missile tests, but reports suggest that there has been no reduction in its capacity to build missiles.

CHINA OPENED ITS FINANCIAL SECTOR to foreign participation a little more this year. There is growing interest in domestic shares, government bonds, and corporations assuming majority stakes of financial firms, but many observers remain skeptical about Beijing’s commitment to giving foreign firms a level playing field.

THE OUTLOOK FOR 2019

The 40th anniversary of reform and opening up was easy to celebrate — evidence of the prosperity it brought is everywhere. Yet 2019 will bring two anniversaries that the Party is less proud of: It

will be 100 years since the May Fourth Movement (a student-led campaign against a weak Chinese government and predatory foreign behavior), and 30 years since the Tiananmen Square protests. Expect censorship and tight security in Beijing and across the country around the dates of May 4 and June 4.

What else is in store for January 2019, and the Year of the Pig, which begins on February 5? There are two issues that we expect to continue dominating the news from China:

- **The deterioration of U.S.-China relations**
- **The crisis in Xinjiang**

These are both natural outcomes of phenomena that became apparent in 2017: Xi Jinping's highly authoritarian tendencies, and the global pool of resentment about China's rise and influence. In this Red Paper, we devote two sections to these issues, and suggest some possibilities for how they might develop in 2019.

Other stories and possible events we'll be watching closely in the coming year:



- **INNOVATION IN BIOSCIENCES AND HEALTHCARE.** Just one example, a new colorectal cancer treatment from a company called Chi-Med is progressing in clinical trials, and headed toward likely approval in 2019.
- **A SLOWDOWN OF INVESTMENT IN INTERNET COMPANIES,** and the consolidation of players in many sectors. The last two weeks of the year, for example, brought news that the on-demand bike firm Ofo is on the verge of bankruptcy.
- **THE HEALTH OF THE CHINESE ECONOMY.** Many observers are predicting a dramat-

ic slowdown, but no one got rich betting against the Party's economic policies in the last 40 years.

- **THE SOUTH CHINA SEA.** The Council on Foreign Relations (CFR) rates an "armed confrontation over disputed maritime areas in the South China Sea between China and one or more Southeast Asian claimants (Brunei, Malaysia, Philippines, Taiwan, and Vietnam)," a "Tier One" risk facing the world in 2019. The East China Sea is less of a worry — Japan and China have been trying to get along, and the relationship looks healthier than it's been for years.
- **"A CRISIS BETWEEN THE UNITED STATES AND CHINA OVER TAIWAN,** as a result of China's intensifying political and economic pressure campaign ahead of Taiwan's elections in 2020." This is a Tier Two risk, according to CFR.
- **PAKISTAN.** China's ties to its all-weather friend are much more stable than the country itself. A key artery of the Belt and Road runs through Pakistan's province of Balochistan, home to a separatist movement that has already targeted Chinese investments and the Chinese consulate in Karachi. We can expect to hear more from the discontented Balochis.
- **"A NEW MILITARY CONFRONTATION BETWEEN CHINA AND INDIA** over disputed border territories." CFR calls this a Tier Three risk. Despite many signs of a thaw in relations in recent months, trans-Himalayan tensions will not go away.
- **REDUCED CHINESE INVESTMENT IN AFRICA,** caused by soft Chinese demand for commodities, and by diversion of funds to Belt and Road projects.
- **GROWING SOPHISTICATION OF CHINA'S MILITARY TECHNOLOGY,** and growing arms sales to other countries. AI submarines, ship-mounted rail guns, and stealth planes are just some of the new technologies that China is developing. China's version of GPS, the Beidou satellite system, is planned to become globally operational in 2020.
- **THE ENVIRONMENT.** There is an ongoing contradiction between the government's desire for economic development and its plans to reduce the harmful effects of industry. Coal remains a major energy source, and given Xi Jinping's support for the state sector, there may not be the political will to reduce steel production, or put pressure on other polluting industries.

- **FINTECH.** China has become a financial technology leader. Urban China has gone almost completely cashless, and its consumers are increasingly reliant on services from Tencent and Alibaba to pay for goods, transfer funds, buy plane tickets, invest, and borrow money. The business opportunities are huge; so are the potential problems if something goes wrong, as was apparent with the crash of the peer-to-peer lending industry this year.
- **CONSUMER SPENDING:** At the end of

2018, there were all kinds of contradictory signals about what Chinese consumers were thinking. Their behavior in 2019 will have ripple effects across the world.

- **DEBT.** Local government and corporate debt will remain key risks for the Chinese economy.
- **NEW CONTAGIOUS DISEASES,** and epizootics like African swine fever, which is still spreading through China's pig farms.

II. THE ECONOMY IN 2019

- Optimism in the time of a slowdown
- Politics is the wild card

As we were wrapping up this Red Paper, I noticed a tweet that warned:

China's economy is far, far worse than people realize.

Consumer confidence is plummeting.

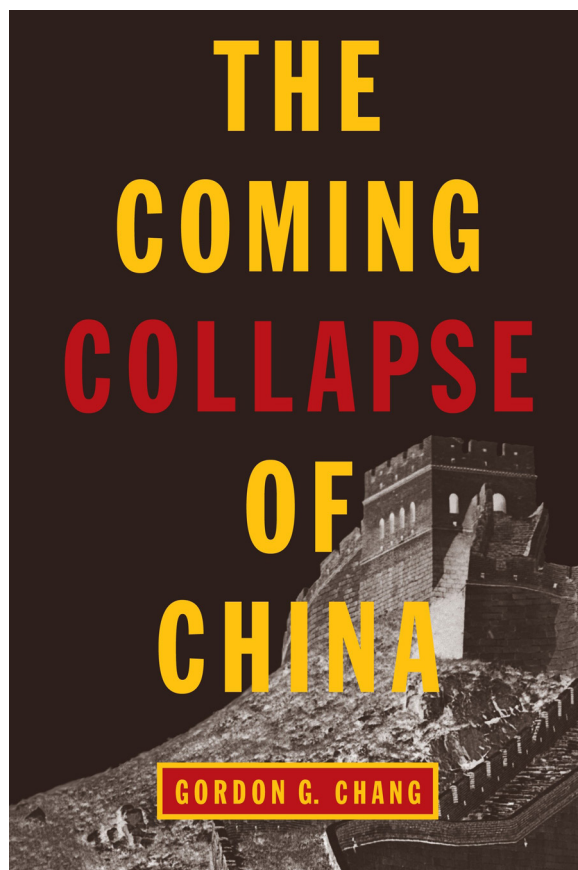
This is the first time I've become outright bearish on China's economy.

People have been predicting a hard landing for China's economy ever since I started following it in 1995, so I generally don't pay much attention when someone says the sky is about to fall. But this tweet came from Shaun Rein, the founder of a market research firm in Shanghai who is well known as a permabull, and a steadfast supporter of Chinese government policies. He's not alone: Here is a typical headline from the business press in December 2018: "China's economy had a rough year. 2019 is looking worse."

Also in December, China's National Statistics Bureau "ordered a department of the Guangdong government to suspend surveying manufacturers for a closely watched regional economic indicator because the province let its approval lapse," according to Caixin. The suspension of the indicator led to speculation that the government was hiding particularly weak economic numbers. At around the same time, state media began publishing articles on the robust health of China's economy. Nationalistic rag Global Times ran a piece titled "China's economy not on cliff edge," which of course leads one to think that China's economy must indeed be on a cliff edge.

So will this be the year when the predictions of *The Coming Collapse of China*, a book published in 2001, finally come true? Probably not.

Almost no one doubts that China's growth will slow in 2019, but many observers remain sanguine. William Rhodes, a former Citi executive,



told Bloomberg that he had confidence in China's planners, but that China would struggle to top 6 percent growth in 2019. The World Bank is a little less gloomy: In December, it forecast that growth would slow to 6.2 percent in 2019, from an expected 6.5 percent in 2018. The International Monetary Fund also predicts growth at 6.2 percent. That's not a disaster, by any means.

When it comes to investing, in December, a Morgan Stanley strategist said the firm was "outright bullish on Asian markets," especially China. This matched an unexpected confidence I found when I conducted a spot survey of 13 economists and investors for this Red Paper. I asked them what they were optimistic and pessimistic about as we go into 2019.

To my surprise, I found that my interlocutors were

generally much more positive than the news media. One of the smartest tech investors I know — who has made a fortune understanding the cycles of China’s markets — said, “I’m optimistic we’ll see a period of less volatility, politically and economically, within the next 12 to 18 months.”

Andy Rothman, investment strategist at Matthews Asia and one of the most respected analysts in the business, was even more positive. This is what he told me:

I’m anticipating a resolution to the short-term trade dispute between the U.S. and China during the first half of the year, and I will be looking for Xi to continue with his rhetorical and policy support for the entrepreneurs who generate all of China’s new jobs. I expect the growth rates of income and retail spending to continue their gradual deceleration, but will be keeping an eye out for any unexpected bumps in the world’s best consumer story.

I’m optimistic about the Chinese consumer, especially in smaller cities. My biggest worry is actually in the U.S., where a growing number of China scholars seem to believe — wrongly, in my view — that engagement between the U.S. and China has not produced benefits for most Americans and Chinese. That has led to the misguided idea that confrontation and a cold-war environment is the best approach for

resolving the remaining challenges. To my fellow China-watchers: Please think about what you’d like U.S.-China relations to look like in 25 years, and what the most constructive way is to reach that objective.

With the caveat that Andy is known as a China bull, what he says makes a lot of sense to me. But his comment about the dangers of a U.S.-China confrontation are also telling: unpredictable politics is the biggest risk to China and the global economy.

In contrast to the relatively sunny replies I received from economists and investors about China in 2019, I received almost wholly negative responses when I asked the same questions of a dozen journalists and China-focused academics.

As Washington reels from one Trump-induced crisis to another, China faces many social, financial, and political problems of its own, as we detail in these pages. The world has never seen a country like China in 2019: so big, so populous, so rich, so jacked-up on technology, so connected with the world, but at the same time, so closed and so repressive. Most likely, China will stumble through the next year of tension as it has through every challenge since the 1990s. But the wrong sequence of events could make 2019 not just a time of recalculation for China, but a year of reckoning.



III. A GROWING GLOBAL BACKLASH TO BEIJING'S POLITICAL AND ECONOMIC INFLUENCE

BY LUCAS NIEWENHUIS

AT THE 19TH PARTY CONGRESS IN BEIJING in October 2017, General Secretary Xi Jinping declared that China was entering a “new era” where it should “take center stage in the world.” Xi added that China had finally “stood up, grown rich, and become strong,” and was on track to “achieve national rejuvenation” and restore itself to its historical great power status by 2049. (Read

more about Xi Jinping’s intention to be president for life in section 6.) The previous “era” of an intense focus on reform and opening up at home and China “concealing its strengths and biding its time” (韬光养晦 tāoguāng yǎnghuì; also translated as “keeping a low profile”) abroad was now ended.

This declaration seemed to come at an opportune time: The U.S., the current leading world

power, had its first modern president who was an avowed anti-internationalist. Beijing couldn't believe its luck as Donald Trump withdrew the U.S. from the TPP — the multilateral trading agreement that would have slowed the spread of China's economic influence in eastern Asia — and then picked trade fights with nearly all of its closest allies, from Japan to Canada to Germany. Then, the Trump administration also ripped up its commitments to the Paris Agreement and the Iran Deal, leaving its European partners particularly aghast. The United Nations was also targeted by "American First" nationalists, as the Trump administration withdrew the U.S. from several sub-organizations at the UN, including the Human Rights Council on June 19, 2018. Chinese state media cheered the decline of American leadership, and Xinhua even published a special feature about Trump's "withdrawal from the global community" (推出国际群 tuīchū guójìqún).



On June 24, Xi Jinping addressed the Central Conference on Work Relating to Foreign Affairs, and said that China is at a "historical juncture" (历史交汇期 lìshǐ jiāohuì qī) to increase its international influence.

That historical juncture, at least from the perspective of U.S.-China relations, appears to have very quickly passed. In the relationship, trade and most major issues were deprioritized throughout 2017 and most of the first half of 2018, as attention was focused instead on a maximum-pressure campaign on North Korea (read more on North Korea in section 6). But as soon as that campaign ended, the second half of 2018 took a dramatic turn: The Trump administration has reset the relationship, effectively ending the long-standing policy of engagement in favor of competition, or even active disengagement and hostility.

This reset largely, but not entirely, consists of a wave of economic backlash in the form of a trade

war. Trump launched the first round of tariffs on July 6, followed by another round on August 23, and a third, much larger round on September 24. China responded back with tariffs each time, and now nearly half of goods traded between the two countries are taxed extra at the border. Trump would not relent, he repeatedly reminded China, until a mountain of pent-up economic grievances — more related to technology than to the balance of trade, as described below — were addressed. Despite a 90-day tariff "cease-fire" that was agreed upon after Trump and Xi met at the G20 on December 1, almost all of these issues are no closer to being solved.

But the reasons that the Trump administration has ended "engagement" with China and explicitly oriented U.S. policy toward "competition" instead are not just economic. Vice President Mike Pence made a speech on October 4 that listed nearly a dozen criticisms of China's politics and its political influence, including the horrifying internment of hundreds of thousands of Uyghur Muslims in Xinjiang (see section 4 for more on Xinjiang), China's militarization of the South China Sea, surveillance and censorship, its "debt diplomacy" with other developing countries, its quest to control Taiwan, and influence operations that he alleged are happening on U.S. soil. Pence further threw down the gauntlet via a Washington Post interview that was published on November 13 with the title, "Pence: It's up to China to avoid a cold war."



Motivating the proponents of U.S.-China disengagement, who grew more numerous by the month in 2018, is this combination of economic grievance with a profound sense of disappointment that China has not become more politically open as it has economically developed. Americans feel this disappointment most acutely, as they were heavily involved in helping China's economy develop and integrate into the world

system.

In 2018, a backlash against Beijing's economic influence spread from its center, the U.S., to all corners of the wealthy and liberal democratic world. Different wealthy countries reacted to varying degrees, and in some, political backlash was more prominent than economic backlash. But across the world, in dozens of countries across income levels, greater scrutiny of Chinese money was a common trend.

In the developing world, Xi Jinping's signature foreign policy, the Belt and Road Initiative, was also hit by backlash in 2018. Narratives about "debt-trap diplomacy" along the Belt and Road have spread like wildfire since December 2017, when Sri Lanka found Chinese loans for the Hambantota Port to be so overwhelming that it was forced to lease the territory to a Chinese state-owned company for 99 years.

Let's take a look through some of these experiences around the world, before returning to the U.S.-China reset and where it may lead.

AUSTRALIA'S EXPERIENCE

IN SOME PARTS OF THE WORLD, backlash to China's rise has been centered on Beijing's political influence rather than on its economic influence. This is clearly the case in Australia, where in mid-2017, media investigations revealed avenues of Communist Party influence, often through the United Front Work Department, in both the Labour and Liberal parties. A Labour Party politician, Sam Dastyari, was revealed to have parroted the Communist Party line on the South China Sea after a Beijing-linked donor threatened to withdraw a \$400,000 donation to his party. Dastyari resigned in disgrace in December, and a public policy reckoning ensued. By June 28, 2018, Australia had established a counter-foreign-interference task force as part of the newly created Department of Home Affairs, and passed two pieces of policy directed at countering Chinese influence, a counter-interference criminal legislation and a foreign influence transparency scheme, though a bill banning foreign political donations remains in limbo. In August, Australia banned Chinese companies Huawei and ZTE from contributing to the country's 5G telecom networks, citing national security concerns.

Beijing is furious about the backlash from Australia, and has not hesitated to cast any attempt to legislate around Chinese influence operations as a "racist" attack on "Chinese people." But while some aspects of the alarm were indeed outright xenophobic and racist, talking of a Chinese "invasion" that threatened the very fabric and sovereignty of the Australian nation, the concerns about specific instances of Beijing's overreach were well founded. And to its credit, the Australian government, led by Malcolm Turnbull at the time, made clear that its first principle for the pushback was, "Our diaspora communities are part of the solution, not the problem."



The successful pushback from Australia is remarkable. As a report written by an all-star team of China scholars and published by the Hoover Institution pointed out, "There is no precedent for a mid-sized, open, multicultural nation standing its ground against a rising authoritarian superpower that accounts for a large proportion of its migrants and one in every three of its export dollars."

TAIWAN, NEW ZEALAND, CANADA

TAIWAN, NEW ZEALAND, AND CANADA also saw instances of largely political backlash to Beijing this year. Leading up to the November 24 local elections in Taiwan, the island's Ministry of Justice Investigation Bureau announced that it was investigating 33 cases of suspected Chinese funding for candidates. Observers of the election in Taiwan also raised concerns about a Russia-style social media disinformation campaign directed from Beijing.

In New Zealand, the leader of the National Party was accused of unlawfully receiving a \$65,000 donation from Chinese businessman Zhāng Yǐkūn 张乙坤. Scholars around the world have also be-

came alarmed as Anne-Marie Brady, a New Zealand scholar who has published on Chinese overseas influence operations specifically through the United Front, was subjected to a clear harassment campaign, including multiple burglaries, as a result of her research. Finally, New Zealand followed Australia's lead by banning Huawei from its 5G infrastructure in November, a remarkable move considering that a decade ago, New Zealand became the first wealthy democratic country to sign a free trade agreement with China.



Canada also had a China-linked election controversy: The Canada Wenzhou Friendship Society was investigated for its alleged links to the Chinese Communist Party's United Front after it started advocating in a local election in Vancouver. And at the end of 2018, of course, Canada became embroiled in the larger U.S.-China conflict due to its arrest of a Huawei executive, as described later.

EUROPEAN UNION AND GERMANY

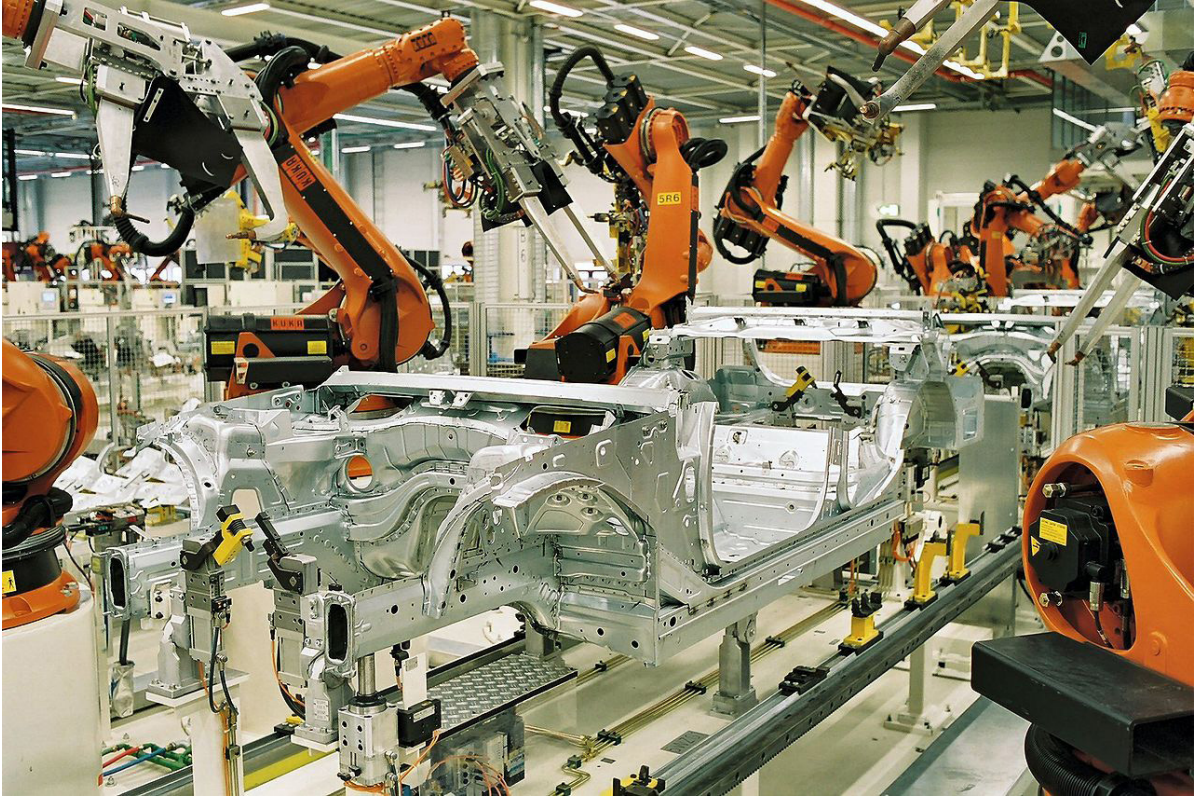
THE EU HAS BECOME INCREASINGLY WORRIED about Chinese investment in Europe. There are several areas of investments of particular concern:

- Leaders in Brussels have worried that China has been trying to divide Europe since 2012, when Beijing established the "16+1" organization for cooperation with Central and Eastern European countries (CEEC). Those countries have reportedly become disillusioned this year with the slow pace and terms of deals that they have been able to negotiate with Beijing.
- About 10 percent of Europe's container port capacity is now Chinese state owned, a reality that has become more controversial due to the experience of Hambantota Port in Sri Lanka.
- High-tech investments in Europe's most advanced economies are very controversial. In particular, the \$4.6 billion purchase in 2016 of Germany's Kuka, the maker of industrial robots, by Midea, rang alarm bells. Despite promises of autonomy for Kuka at the time of acquisition, Midea kicked the original German CEO out in November 2018.

On November 20, 2018, the EU agreed on provisional rules to establish a screening procedure on foreign investments for the union, largely in reaction to Chinese acquisitions like Kuka. The European parliament is set to vote on the law in February or March 2019.

The U.K.'s Theresa May and France's Emmanuel Macron both visited China early in 2018, seeking business deals and steering clear of sensitive political topics. Brexit severely hobbled May's ability to achieve anything of significance during the visit, but Macron walked away with deals worth several billion dollars. But later in the year, both countries joined the U.S. in pushing back on Chinese claims in the South China Sea, and Huawei is now having difficulties convincing British authorities to keep its technology in the country.

Within the EU, Germany's relations with China are unique. While it pushed back on Chinese investment in a couple of cases — preventing power grid company 50Hertz from becoming majority Chinese owned, and vetoing Chinese investment in machine tool company Leifeld Metal Spinning, invoking national security for such a veto for the first time — it is now more enthusiastic than any other Western country seeking business with China. Angela Merkel met with Li Keqiang in July and agreed to a \$23 billion trade deal involving German industrial giants like BASF, BMW, Volkswagen, Daimler, Siemens, and Bosch. BMW soon became the first foreign-owned venture to receive the green light for supermajority ownership in China. In November, a German Chamber of Commerce in China survey showed near-unanimous commitment to the Chinese market by German companies in China, with 97 percent saying they will maintain or raise their investments there. At the same time, a majority of German businesses say that China's opening of its market and treatment of foreign firms is still insufficient, a view shared even more strongly by European business as a whole and by American firms.



Interestingly, this economic commitment has not stopped Germany from leading some aspects of political pushback to China. Angela Merkel notably met with the wives of detained human rights lawyers during a visit to Beijing in May, and in July, her government successfully lobbied Beijing to bring Liu Xia, widow of Liu Xiaobo, back to Berlin. And in December, it was reported that the German Human Rights Commissioner Bärbel Kofler had requested to visit Xinjiang to investigate the Muslim internment camps.



BUMPS ALONG THE BELT AND ROAD

CHINA'S BELT AND ROAD INITIATIVE, the international infrastructure development project that state media increasingly uses as a catch-all term to apply to any overseas investment, hit a num-

ber of bumps this year. These bumps were a mix of political dissatisfaction, often expressed as a result of an election, and economic friction, primarily in areas where Belt and Road projects had become too debt-heavy. An RWR Advisory Group study — which Beijing loudly objected to — showed that 14 percent, or 234 out of 1,674, projects since 2013 have run into problems, including “public opposition to projects, objections over labor policies, performance delays, [and] concerns over national security.”

Most notably, Malaysia, after Prime Minister Mahathir Mohamad assumed office after an election in May, suspended three Chinese infrastructure projects worth \$23 billion. Mohamad met Premier Li Keqiang in Beijing in August, and told him that “free trade should also be fair trade,” though he allowed Beijing to save face by blaming the large debt his country owes China squarely on his predecessor Najib Razak, who was arrested in a massive corruption scandal. By September, Malaysia confirmed that two of the three projects had been canceled, while another was to be renegotiated.

Several South Asian nations pushed back on Chinese investment this year. Nepal continues to waver on whether to let China build a \$1.8 billion dam, after a Communist-friendly coalition came to power at the end of 2017. The Maldives, which



has little more than 400,000 people but plays an outsized role in China-India geopolitics, voted in a less China-friendly president and announced it was going to audit Belt and Road projects and pull out of free trade agreement negotiations with China.

And in Sri Lanka, negotiations for a free trade agreement with China hit a major hurdle, as Beijing did not agree with Colombo's request to review the agreement after 10 years. Sri Lanka, of course, became so in debt to China in 2017 that by December, Sri Lanka's parliament approved a deal that leases the Hambantota Port to China Merchants Port Holdings for 99 years — this transaction greatly fueled accusations of "debt-trap diplomacy" against Beijing. The Chinese Foreign Ministry dismissed as "fake news" a New York Times investigation in June 2018 that revealed how Beijing's hard-line negotiating tactics led to Sri Lanka's accumulation of unsustainable debt, and also alleged that "intelligence sharing was an integral, if not public, part of the deal."

Even Pakistan, the "all-weather friend" of China, announced it planned to review or renegotiate some parts of the China-Pakistan Economic Corridor (CPEC) after Imran Khan was elected prime minister in July. The Wall Street Journal reported that Pakistan was likely to seek a bailout from the International Monetary Fund, partially because of debt from CPEC, a charge Beijing vigorously denied. On November 23, Beijing also received a huge shock as terrorists from the Balochistan Liberation Army attempted to bomb the Chinese

consulate in Karachi as retribution for Chinese resource development in Pakistan. Two civilian bystanders died.

Beijing is not deaf to criticism of its Belt and Road projects, and this year saw signs of strategy modification. A few days after the Times published the investigation about Sri Lanka, it reported that Beijing had "begun a broad, interagency review of how many [Belt and Road] deals have already been done, on what financial terms and with which countries." The Financial Times reported in July that the China Development Bank (CDB) and the Export-Import Bank of China (Ex-Im Bank) had started to work with the European Bank for Reconstruction and Development (EBRD) and the French development agency AFD, which will bring some Belt and Road lending more in line with international standards. And in November, Wáng Wěn 王稳, the chief economist of China Export and Credit Insurance Corporation (Sinosure), warned that many overseas infrastructure projects had "downright inadequate" planning, citing the example of the Addis Ababa-Djibouti freight railway, a \$4 billion project that had lost Sinosure nearly \$1 billion.

As for African countries, which have benefited unevenly — depending in general on how well the host country is governed — from Chinese infrastructure investment, here too a backlash can be seen. Warnings about falling into Chinese debt traps are now increasingly common in African media. Partly in response to this criticism, during the Forum on China-Africa Cooperation this year

in Beijing, which was filled with many of the same rhetorical platitudes and large financial pledges as past forums, China forgave or restructured debts in a few countries. There is also a political aspect of backlash from African countries, the most prominent example being outrage over the revelation, reported by *Le Monde* in January, that China had spied for five years on the African Union building in Addis Ababa.

The U.S. has only recently begun to shift away from its habit of knee-jerk criticism of debt-fueled Chinese development projects and toward a strategy of supplying more alternative investment sources for developing countries. The U.S. Congress formally passed the BUILD Act on October 5, which will create a U.S. International Development Finance Corporation (USIDFC) with a budget of \$60 billion — twice the spending cap of the Overseas Private Investment Corporation (OPIC) that it replaces.

THE U.S.-CHINA RESET

A DECADE AGO, THE CHINESE ECONOMY WAS just one-third of the size of America's, and Beijing's global influence was miniscule compared with that of Washington. Now China's economy is about two-thirds of the size of America's, and is on track to become the world's largest within another decade or two. Complaints about China engaging in unfair trade practices like protectionism and economic espionage were regularly heard years ago, but have never sounded as urgent as they do in Washington today from both parties.

Trump is what you could call a representative anomaly. His views on tariffs, the trade deficit, and the stock market's ability to signal economic success are economically illiterate and have not been in the mainstream of Republican Party politics — until he became president, that is — while his apparent push to use tariffs to renationalize supply chains is similarly misguided and unusual. American politicians of both parties have routinely pandered to economic nationalism as China's impact on the U.S. economy has become more noticeable, but none until Trump have gone on to actually implement sweeping anti-free-trade policy. Yet resentment about China's domestic economic practices among American businesspeople, and about its trading influence among the American public, has been rising for years,

and Trump represents that trend.

The Wall Street Journal made an important observation about the course of the trade war so far: "China's leaders misread Mr. Trump as a businessman first, rather than the politician whose fixation on trade had helped carry him into office. They mistook his Treasury secretary as the key interlocutor, not the White House hard-liners who truly had his ear. And they failed to recognize the growing resentments in the U.S., and the world, about their own winner-take-all approach to trade and economics."

The repeated breakdowns of negotiations before and between each round of tariffs have greatly frustrated Beijing. After the first major breakdown, when Trump vetoed the agreement that Treasury Secretary Steven Mnuchin negotiated with his counterpart Liú Hè 刘鹤 in May, the *People's Daily* on June 16 derided the whole Trump administration as "rude and unreasonable, selfish and headstrong."



In the atmosphere of deepening distrust, and as tariffs began to take effect, it didn't take long for Beijing to become convinced that the trade war was just a front for the U.S. seeking to contain its rise. On August 10, a little over a month into the trade war, another *People's Daily* editorial asked the question "What is the essence of the U.S.-provoked trade war?" and asserted this answer: "It can be said that the hegemony-dominated mindset at the base of the White House's international relations has led it to misjudge the order of the 21st century, and also misjudge China's peaceful rise." On August 29, Lóng Guóqiáng 隆国强, vice president of the Development Research Center of the State Council, followed up with a *People's Daily* piece that argued the U.S. has three goals in the trade war: "strategic containment" (战略遏制 zhànlüè èzhì), "interests ex-

tortion” (利益敲诈 lìyì qiāozhà) — basically threatening trade wars or actually going through with them to force the opening of markets — and “model beatdown” (模式打压 móshì dǎyā) — attacking the Chinese “state capitalism” model of development to preserve American hegemony. This appears to remain the dominant perception of the trade war in Beijing.

Why have Chinese officials concluded this? Partly, it's because current and former Trump administration officials have said so — their bellicose rhetoric has been well documented. But besides the tariffs and the chest-beating words, Beijing is probably taking note of this series of policies from Washington to conclude that economic containment is on the agenda:

- **THE NATIONAL SECURITY STRATEGY** (NSS) published in December 2017, which branded China a “strategic competitor” of the U.S.
- **THE FOREIGN INVESTMENT** Risk Review Modernization Act (FIRMA), part of a defense spending bill that Donald Trump signed on August 13, which strengthened the Committee on Foreign Investment in the United States (CFIUS) starting in October and applies extra scrutiny of Chinese deals in particular.
- **THE BUILD ACT**, mentioned above, which aims to help the U.S. compete with China in development finance.
- **RESTRICTIONS ON VISAS** for Chinese grad students in fields like robotics, aviation, and high-tech manufacturing, which began in June, and for Chinese researchers at American studies institutes, which were reported in November.
- **A TRILATERAL INVESTMENT INITIATIVE** between the U.S., Australia, and Japan announced on July 30 that aims “to mobilize investment in projects that drive economic growth, create opportunities, and foster a free, open, inclusive and prosperous Indo-Pacific.”
- **A “POISON PILL CLAUSE** in the renegotiated North American Free Trade Agreement (NAFTA) with Canada and Mexico, which voids the agreement should any party seek a free trade agreement directly with a “non-market economy” (clearly directed at China).
- **HEIGHTENED EXPORT CONTROLS** for “emerging technologies,” which the U.S. Commerce Department announced it was

planning in November.

TECHNOLOGY COMPETITION AT THE CORE

AN ASPECT OF THE CURRENT TURN TOWARD competition in the U.S.-China relationship that cannot be understated is technology. The U.S. Trade Representative's most urgent complaints about China's economic practices, as expressed in the “Section 301” report commissioned in August 2017 and released in March 2018, are primarily related to technology. These include intellectual property theft (or technology transfer through forced joint ventures), economic espionage, and the subsidization of high-tech industries identified in the Made in China 2025 initiative. As Robert Lighthizer, who heads the USTR, has finally been identified as the point person for the current 90-day trade negotiations, after a year of confusing factionalism, technology will be even more important than when trade negotiations were led by Steven Mnuchin.



Since March, when trade tensions with the U.S. started to heat up to a boil, Xi Jinping has made a number of high-profile remarks pushing China to develop indigenous technology as much as possible. Made in China 2025 was at first held up as Beijing's road map for this economic transformation, with its goals to increase the domestic content of core materials to 40 percent by 2020 and to 70 percent by 2025. The plan, announced in 2015, identifies 10 industries for China to reach world-competitive status in by 2025, ranging from aerospace technology to robotics to electric cars to artificial intelligence.

Made in China 2025 flew under the radar of policymakers in Washington and elsewhere for its

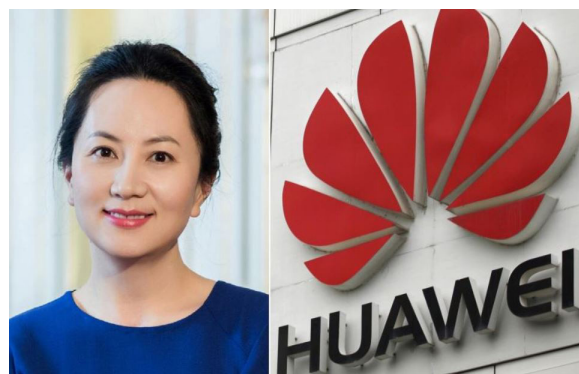
first few years, but that decisively changed with the USTR's Section 301 report. By June 2018, alarm over the plan's perceived predatory threat to the high-tech industries of the U.S., Europe, South Korea, and Japan became so prominent that China toned down its publicity. But despite some recent reports that China is considering at least cosmetically revising Made in China 2025, there have been no signs that Beijing is seriously considering substantially rolling back its technology ambitions, or its state-led support for technology investment. This makes the future of U.S.-China trade talks very perilous, as long as the American side is pushing for a wholesale transformation of China's economic model. On the other hand, if Lighthizer could be persuaded by the Chinese to agree to a deal to address IP, market access, and perhaps a few other concerns that Trump could sell as a "win," then the two sides may find a deal to tone down tariffs.

But the battles over technology will continue regardless of tariffs. In late October and early November, the Trump administration cracked down on Chinese chipmaker Fujian Jinhua, first with a Commerce Department export ban, and then with an indictment alleging the company had conspired with UMC in Taiwan to steal technology from U.S.-based Micron Technology. The U.S. also ramped up the pressure on China by accusing 10 Chinese nationals, including two intelligence officials and six hackers, with stealing American and European aerospace technology secrets. More indictments are expected.

Two massive Chinese telecom companies, ZTE and Huawei, have also played roles in this competition. Both are suspected by the U.S. government of having broken sanctions on Iran, so the bureaucracy in Washington is eager to punish them. It did so with ZTE in April, crippling it with a seven-year export ban, but Xi Jinping persuaded Trump to reverse this ban in May. ZTE instead paid a \$1.4 billion fine and restructured some of its management. This case served as an essential wake-up call to Beijing, which gave even more urgency to the mission to reduce China's dependency on foreign technology.

Then on December 1, Canadian officials arrested Huawei CFO Mèng Wǎnzhōu 孟晚舟 in Vancouver at the request of the U.S. Justice Department. She is accused of facilitating business deals that violated sanctions against Iran, and a case to extradite her to the U.S. for prosecution is expect-

ed. The drama of this is still playing out, and even though officials have so far sought to keep the Meng Wanzhou case separate from the trade war, it is unlikely that this will remain the case. Because of Trump's previous flip-flop on ZTE, Beijing probably expects him to also show leniency to Huawei.



CHINA'S STRATEGY, AND ITS ECONOMIC REALITY

BEIJING HAS PURSUED SEVERAL LINES OF counter-attack to the American-led onslaught against its economy, with varying results:

- **LOBBYING THROUGH AMERICAN BUSINESSPEOPLE** and key former officials, though until the 90-day cease-fire, this tactic had little to show for it amid the ever-rising tariffs.
- **ADVERTISING CHINA AS OPEN FOR BUSINESS**, to counter the American narrative that China is protectionist. In part, this has worked: China was the number one destination for foreign direct investment in the first half of 2018, edging out the United States, even as U.S.-to-China investment plummeted. Beijing got a boost for this project when in late October, the World Bank ranked China in the top 50 countries for ease of doing business for the first time ever. But the inaugural China International Import Expo held in Shanghai in early November had a more mixed result: Organizers claimed that the expo attracted 400,000 buyers, but it is not clear how much the buyers are actually buying, or whether deals would have taken place without the expo.
- **ACTUALLY CRACKING OPEN THE DOOR** to some kinds of foreign investment, to defuse tensions with multiple trading partners.



A historic opening to China's financial sector was announced in November 2017, and 2018 saw substantial progress toward that goal. In May, UBS became the first global bank to apply for a majority stake in its China securities venture. In June, China announced formal rules to ease foreign investment limits on a range of industries. On August 23, the China Banking and Insurance Regulatory Commission finally changed the law, and announced that "foreign and domestic capital will be subject to the same access to markets and the same administrative procedures." By September, Reuters reported that "Fidelity International, UBS Asset Management and J.P. Morgan Asset Management...believe the long-term growth potential of the world's second biggest economy outweighs the more immediate hit from trade disputes," and are pouring money into the country's financial sector.

- **LOWERING TARIFFS ON A WIDE VARIETY OF NON-AMERICAN PRODUCTS**, from a near 10 percent average in 2017 to less than 8 percent average in 2018 (tariffs on foreign cars were dropped from 25 percent to 15 percent on July 1, before import taxes on American cars shot up to 40 percent in the trade war), and shrinking China's foreign investment "negative list," opening up additional industries such as railway construction, agriculture, and aircraft design to foreign ownership.
- **REACHING OUT TO ECONOMIC PARTNERS**, such as Japan and Germany (German deals with China are described above). Japan's warming to China is the most remarkable — the two countries held their first high-level economic dialogue in 10 years in April, Li Keqiang became the first Chinese premier to visit Japan since 2010 in May, and Prime Minister Shinzo Abe declared in September that "the Japan-China relationship has completely returned to a normal track." Abe then

said in October that the two countries "do not threaten each other," and said they are seeking ways to cooperate "in industries such as infrastructure, logistics, healthcare and finance." Japan continued to find some balance between Chinese and American pressures, however, as it has signed joint statements with the U.S. (described above) and followed the U.S. lead to crack down on Huawei and ZTE, banning government purchases of their equipment in early December.

Though the direct effects of tariffs on China's real economy have not yet been significant, the trade war was a major factor contributing to a dismal year on the Chinese stock market. Officials are worried about both the stock market and the overall health of the Chinese economy. In mid-October, four key economic officials — Liú Hè 刘鹤, Guō Shùqīng 郭树清, Yì Gāng 易纲, and Liú Shìyú 刘士余 — made expressions of confidence in the market, which boosted it for a couple of days before it dipped again. Economic anxiety is high, and a stimulus of \$195 billion in special infrastructure bonds does not seem to have been very effective.

Reaching the end of 2018, it was not apparent that there was a clear consensus in Beijing about how to handle China's economy going forward. The role of state-owned enterprises has become controversial, as propaganda about Xi Jinping in October oscillated from emphasizing "self-reliance" and the importance of the state sector to celebrations of the private sector intended to placate entrepreneurs who are nervous about the advance of the state in business.

A suspicious delay of the annual fall plenum of the Party's Central Committee — which has still not been held, despite the tradition of holding it in October or early November — highlighted this disharmony, analysts said. At several points in the second half of 2018, there were signals that Beijing was reevaluating at least the cosmetics of its economic strategy. There were reports in early August that Wáng Hùníng 王沪宁, seen as the brains behind much of Xi Jinping's ideology, was in hot water for selling Chinese power too aggressively to the world. Influential economist Zhāng Wéiyíng 张维迎 argued in October that Beijing has been too aggressive in boasting about its economic model, and that this contributed to the backlash seen in the U.S. and around the world. The second-highest ranking diplomat

at the Chinese Embassy in Washington then admitted to some of this on December 5: “What about today’s China? Are we that big, that strong? Well, 60% is the reality. 20% is the imagination by the outside world. And another 20% is the nationalist bubble we’ve created by ourselves, with the pride naturally from a fast catching-up nation, and some media has played a very bad role for it.”

It remains to be seen if the ongoing recalibration of China’s economic strategy leads to the more fundamental change in direction that the Trump administration is pushing for, and not just how China “sells” its existing pace of reform and opening up, currently considered slow or worse by many foreigners. But certainly, the mainstream position in Beijing in 2018 has appeared to be that China’s existing model has delivered economic results, that no political opening is necessary for continued growth, and that China should open its markets at its own, gradual pace.

THE POSSIBLE OUTCOMES OF THE TRADE WAR

AT THIS POINT, THERE ARE SEVERAL real possibilities for how the trade war and larger U.S.-China economic competition could play out.

Part of it depends on what Beijing decides to do with its economic strategy, and what compromises Lighthizer would be willing to make — or allowed to make by the even more hawkish members of the Trump team. A short-term deal to reduce tariffs and resolve some economic issues is possible, though technology tensions are practically guaranteed to remain in 2019. In the longer term, some commentators, such as the former World Bank Director for China, Yukon Huang, think that a reformed World Trade Organization still holds promise to resolve economic conflicts between the U.S. and China.

Overall, we can speculate that there are three broad outlooks for the trade war in 2019:

- **A REDUCTION** in tariffs and economic tensions as a result of a substantial deal. Broader technology tensions and political hot spots would be separately treated, and could perhaps even be better managed with a full-blown trade war off the table.
- **AN INCREASE** to the next level of tariffs, as promised by Trump, after the failure to reach a deal by the end of the 90-day period (or sooner), and increasing economic hostilities. Tariffs would become permanent, and the U.S. and Chinese economies would begin to largely disengage. Political distrust and tensions would likely be fueled even more in this scenario.
- **A COMPLETE FALLOUT** in U.S.-China relations, as trade and politics get wrapped together, and the Trump administration pushes for disengagement and ever-more explicit declarations of rivalry on both fronts.

ARE THE U.S. AND CHINA HEADED TOWARD A COLD WAR?

AS LAID OUT AT THE TOP, THE CURRENT PUSH toward U.S.-China disengagement is driven not just by economic grievance, but also by a profound sense of disappointment that China has not become more politically open as it has economically developed. Beyond the focus on the economic and even technological sides of the current tension between the U.S. and China, political and military tensions, especially around the South China Sea and Taiwan, are also higher than they have been in years. Because the Chinese Communist Party under Xi Jinping has so decisively placed its bets on a more assertive foreign policy — not to speak of a more authoritarian domestic politics, best illustrated by the horrors in Xinjiang described in the next section — this makes the third potential outcome of the trade war, a complete fallout in relations, disturbingly likely.

Politicians like Mike Pence have already declared essentially a patriotic battle against China, for largely political reasons. The U.S. intelligence services are also clearly alarmed by Beijing’s influence. In July, Michael Collins, deputy assistant director of the CIA’s East Asia mission center, accused China of waging a “quiet kind of cold war” against the United States. This followed up on FBI Director Christopher Wray’s hugely controversial remarks at a Senate Intelligence Committee hearing on February 13: “One of the things we’re trying to do is view the China threat as not just a whole-of-government threat but a whole-of-society threat on their end, and I think it’s going to take a whole-of-society response by us.” He also claimed that China has aggressively

placed operatives at American universities, and that all 56 FBI field offices are monitoring Chinese students and academics in the country.



Chinese students in the U.S. expressed very legitimate concerns that they are being assumed guilty of being spies until proven innocent. Asian-American advocacy groups harshly criticized the comments, accusing Wray of “scapegoating immigrants” and “racial profiling.” Nevertheless, universities from Florida to North Carolina to Michigan decided that they would close their Confucius Institutes amid this political atmosphere.

Another harbinger of a cold war atmosphere is the rise of a sense of a Chinese threat to American democracy. This goes beyond Donald Trump’s explosive claim that China was engaging in election “interference” leading up to the mid-term elections in November, which not too surprisingly turned out to be mostly bluster to distract from his Russia problems. The year 2018 was a watershed year for public concern about Beijing’s influence in the U.S. (and in other democracies, particularly Australia, New Zealand, and Taiwan).

On November 29, an all-star group of China scholars, including many who have advocated U.S.-China engagement for decades, wrote a report published by the Hoover Institution titled “Chinese Influence and American Interests: Pro-

moting Constructive Vigilance.” Its overall message makes it clear that there is currently the beginnings of a wholesale revision of the basic assumptions of the U.S.-China relationship.

At the same time, a few former American diplomats have argued for a management of risk amid continued U.S.-China engagement. These include Susan Thornton, Susan Shirk — whose public dissent to the “inflated assessment of the current threat of Chinese influence seeking on the United States” was published as part of the Hoover Institution report — and Jeffrey Bader, now based at the Brookings Institution, who wrote an essay in September urging continued U.S.-China engagement.

Bader makes a good point about the prospect of Cold War 2.0: “Americans need to understand that if we go down the road of disengagement from China in pursuit of unbridled competition, it will not be a repetition of the Cold War with the Soviet Union, when the United States was joined by a phalanx of Western and democratic countries determined to join us in isolating the USSR.” The world is many times more economically intertwined than it was during the Cold War, and most of the governments experiencing backlash to Beijing as described above would prefer to find a balance between Washington and Beijing, rather than having to pick a side.

Bader concludes, “Continuing intensive engagement in no way would prevent alterations in U.S. policy to respond to challenges from China in the economic, digital, academic, and security fields. Indeed it would likely make policy changes more effective by giving China a continuing stake in the relationship with the United States.”

It does not seem likely that such engagement is going to be possible under the current leadership and sentiment in Washington. The year 2019 will be a bumpy ride.



IV. CRUSHING UYGHUR IDENTITY IN XINJIANG

BY LUCAS NIEWENHUIS AND JEREMY GOLDKORN

OUR RED PAPER LAST YEAR NOTED that “Uyghurs in Xinjiang saw continued repression” — the same note could have been made for many years — but we had little concrete information to report.

This year, the full horror of that repression was exposed and documented by multiple eyewitnesses, journalists, scholars, and a trove of government-procurement data and satellite imagery online. At least hundreds of thousands — some estimate more than a million — Uyghurs and other ethnic minorities in Xinjiang are interned in facilities that the government calls vocational schools but that operate like concentration camps, as described by Andrea Pitzer in *One Long Night: A Global History of Concentration Camps*:

Concentration camps are established by state policy... They represent the exercise of state

power against citizens, subjects, or others for whom the government has some measure of responsibility. Unlike prisons, camps often detain prisoners without a specified date of release...

Detention in a handful of camp systems has been framed as protective, ostensibly guarding an unpopular group from public anger — and sometimes they really have offered protection. More commonly, detention is announced as preventative, to keep a suspect group from committing potential future crimes. Only rarely have governments publicly acknowledged the use of camps as deliberate punishment, more often promoting them as a civilizing mission, to uplift supposedly inferior cultures and races.

Pitzer also writes: “The concentration camp experience rarely begins and ends inside barbed wire.” The camps — China’s most sweeping internment and “re-education” campaign since

the Mao era — comprise just one part of the social engineering program in Xinjiang. Ubiquitous police checkpoints, invasive surveillance by high- and low-tech means, forced home-stays, rewards for informants, and closing down of mosques — the campaign seems intended to crush the Uyghur people's ethnic and religious identities and eliminate any expression of resistance to Chinese rule in the region.

By the summer of 2018, we felt there was enough compelling evidence to publish a compendium of it: "Re-education camps in China's 'no-rights zone' for Muslims: What everyone needs to know." At around the same time, the UN Committee on the Elimination of Racial Discrimination (CERD) said that it suspected that 1 million Uyghurs were being held in a "massive internment camp that is shrouded in secrecy."

BACKGROUND

UYGHURS (ALSO SPELLED UIGHURS), the majority ethnic group living in Xinjiang at the founding of the People's Republic of China, speak a Turkic language and are virtually all Muslims, giving them a distinct identity from their mostly Han Chinese countrymen. Like Tibet, Xinjiang has been subject to various degrees of control by Chinese empires for centuries but was only incorporated into China's modern borders during the 18th century. Xinjiang briefly regained independence in the early 20th century before being subjugated again by the People's Republic of China in 1949. The government has since then continually sought to identify and crush individuals and groups supporting "separatism" in Xinjiang, as it has in Tibet.



The comparison to Tibet is important because the same Communist Party official, Chén Quánguó 陈全国, has presided over the policing

of both regions as Party secretary in the last decade. The hard-line strategies he pursued in Tibet, including the practice of establishing "convenience police stations," omnipresent checkpoints, and a surveillance practice called "grid-style social management," he brought to Xinjiang in 2016 when he was put in charge. Just one measure of the Chen effect: Criminal arrests in Xinjiang — which do not even account for the mass re-education camp detentions, which occur outside the legal system — skyrocketed 731 percent from 2016 to 2017.



Xinjiang is different from Tibet in an important way, however: It is China's most heavily Muslim region. Besides Uyghurs, many ethnic Kazakhs, Tajiks, Uzbeks, Kyrgyz, Salar, and other Muslim minorities live in Xinjiang. Over the years, all of them have had to deal with religious discrimination such as bans on long beards and religious veils, and multiple campaigns to force changes to "overly religious" names. Besides "stability," "counterterrorism" became the primary justification for harsh policies clamping down on Uyghurs and Islamic culture in Xinjiang soon after the September 11 attacks on the United States. After Uyghur-connected terrorist attacks in Beijing in 2013 and Kunming and Urumqi in 2014, the counterterrorism crackdown intensified.

Heavy policing in response to unrest is one thing. Religious discrimination and volatile ethnic relations are another thing. But what Chinese authorities began doing in 2017 is on a whole new level: the largest mass detention program in China in 60 years, and a political indoctrination program aiming for the complete and final subjugation of Uyghur resistance, even if an entire ethnic culture has to be wiped out and nearly all Islamic reli-

gious practices criminalized in the process.

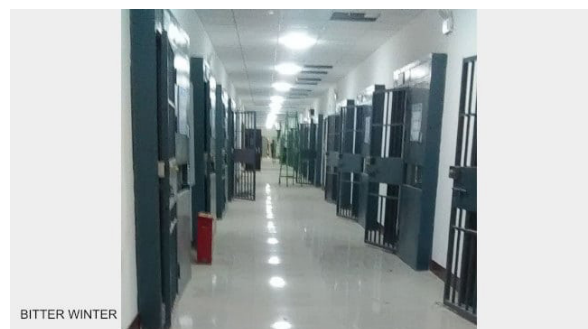
NOW: WHAT WE KNOW ABOUT THE CAMPS

HERE ARE THE KNOWN FACTS about what is occurring in Xinjiang, based on multiple academic reports and media investigations, including multiple named and anonymous eyewitness accounts of former “re-education” detainees, and extensive government records and satellite photos:

- **BEGINNING IN MARCH 2017**, the Chinese government began to build a sprawling network of prison camps near every major city and most towns in Xinjiang. The construction tenders for at least 181 facilities were identified by an AFP investigation, and dozens of massive prisons have been identified in satellite photos.
- **HUNDREDS OF THOUSANDS, AND PERHAPS A MILLION** or more Uyghurs and other Muslim ethnic groups in Xinjiang, have been arbitrarily detained in these camps. Many localities have detention rates of more than 10 percent; dozens of orphanages have been built by the state to accommodate the children whose entire families have been swept away in the internment drive.
- **THESE ARE “CONCENTRATION CAMPS”** in every part of the definition: Detainees are targeted for their affiliation with a religious and cultural minority, held extralegally without indictment or fair trial, and subject to conditions clearly designed to reinforce the state’s political control.
- **EVEN THE SLIGHTEST “CRIME,”** such as having traveled abroad (especially to a Muslim country), taking a phone call from a relative abroad, praying regularly, growing a beard, or speaking a non-Chinese language, has landed ordinary citizens — and some Kazakh citizens, it has been reported — in the camps.
- **DETAINEES ARE TOLD TO RENOUNCE ISLAM**, and swear allegiance to the Communist Party and Xi Jinping. The psychological stress inflicted is so extreme that multiple ex-detainees have said they considered trying or tried to commit suicide.
- **TORTURE HAS BEEN REPORTED** in the camps by multiple witnesses, and deaths in the camps, so far only reportedly from old



- age and sickness, are also occurring.
- **AFTER FIRST DENYING THEIR EXISTENCE**, the government has tried to defend the camps as “vocational training centers,” and state propaganda has regularly praised the efforts of local officials to teach Uyghurs Chinese, for instance. Some state media have even attempted to portray the vocational classes as voluntary, but one of the state’s most prominent propagandists, Hú Xìjìn 胡锡进 of the Global Times, admitted, “I don’t think trainees of vocational training centers in Xinjiang go there voluntarily.”
- **IT IS ILLEGAL** to detain a citizen for more than 15 days without charging them with a crime, even under Chinese law.
- **THE FACILITIES LOOK EXACTLY LIKE PRISONS**, and very little like schools, according to a video that the Italian magazine Bitter Winter managed to take inside one site while it was still under construction. Many other facilities have been seen from the outside surrounded by high walls, barbed wire, and watchtowers.



- **THE UYGHUR DIASPORA IS BEING BLACKMAILED** into silence by Chinese authorities with the threat of sending relatives to re-education camps. Uyghurs who have not stayed silent have seen dozens of their relatives disappeared in Xinjiang.

- **SOME FACILITIES ARE FORCING THEIR DETAINEES TO DO MANUAL LABOR** making textiles and other products, for little or no pay, the Financial Times and New York Times reported in December.

OTHER METHODS OF SUBJUGATION

THE POLICE STATE IN XINJIANG is truly overwhelming. According to public data, 21 percent of all arrests in China happen in Xinjiang, although the region only contains 1.5 percent of the country's population. Most daily tasks require passing through a police checkpoint, where police break into and check phones for illegal information. Security cameras with sophisticated facial recognition technology have been pioneered in Xinjiang's cities.

But even beyond the extensive surveillance and police presence, the state intrudes on the private lives of Uyghurs and ethnic Kazakh Chinese in the most extreme possible way: forced homestays. In 2014, around 200,000 Communist cadres were dispatched to occupy and monitor Uyghur homes. In 2016, 110,000 more civil servants were sent. In 2017, about a million Han civilians were conscripted to become "relatives" to Muslim families in Xinjiang. Scholar Darren Byler wrote for ChinaFile that like the re-education camps, the Communist state "sending down" citizens to live with the "common people" recalls the Mao era, though in this case, the local residents are the ones being subjected to "transformation through education."

Other methods of control, including large-scale forced collection of DNA and blood samples, and forced marriages between Uyghur and Han families, have also been reported in the past year.

THE WORLD'S RESPONSE

FOR MOST OF 2018, THE INTERNATIONAL response to the repeated revelations of the abuse of Muslims in Xinjiang was underwhelming. But momentum has been building in recent months, and 2019 will probably see continued high-profile scrutiny of what is happening in Xinjiang. However, given China's excellent business ties to much of the Middle East, North Africa, and South and Southeast Asia, it is not certain that the Uyghur cause will be taken up with much enthusi-

asm by the Muslim world.

- **THE U.S. GOVERNMENT** has said since April that it may sanction individuals responsible for the crackdown in Xinjiang. Despite further reports in September that sanctions were being considered, they have not been announced. The U.S. State Department confirmed on December 4 that the American government assessment is: "Since April 2017, Chinese authorities have detained at least 800,000, and possibly more than 2 million, Uyghurs and members of other Muslim minorities." Various individuals and committees of the U.S. Congress have also expressed concern about Xinjiang, and called on their government to act.
- **A "XINJIANG INITIATIVE"** of scholars, writers, and speakers who pledge to "commit to raise awareness of the situation in Xinjiang at every public event in which they are a participant" was started in June, and now has over 260 signatories.
- **THE UN COMMITTEE** on the Elimination of Racial Discrimination said on August 10 that up to a million Muslims in Xinjiang had been detained in a "massive internment camp that is shrouded in secrecy," according to "many numerous and credible reports."
- **A PETITION FOR "THE DISAPPEARED"** in the "Uyghur & Kazakh Homelands in Northwest China" was started by Darren Byler and Tahir Hamut on August 22, and now has over 2,800 signatories. It is paired with a petition for the release of Professor Rahile Dawut, one of the foremost anthropologists of Uyghur culture, who was reported missing in early August.
- **ANWAR IBRAHIM**, who became Malaysia's parliamentary coalition leader in November, called for talks with China about its crackdown on Uyghurs in September.
- **IT WAS REPORTED BY PAKISTANI NEWSPAPER THE NATION** that Federal Minister Pir Noorul Haq Qadri had warned Chinese Ambassador Yao Jing 姚敬 that harsh regulations on religion fuel extremism, and urged China to relax its restrictions on September 19. It was also reported that Yao accepted a request that a delegation of Pakistani religious scholars visit Xinjiang. But three days later, Qadri told Arab News, "This [the Uyghur issue] was not discussed." The original report in The Nation has been taken offline.
- **DOZENS OF PAKISTANI MEN WHOSE**



WIVES and children are trapped in Xinjiang began to travel to Beijing to lobby for their release in September.

- **HUNDREDS OF KAZAKH PEOPLE** have also reportedly lobbied their government after Kazakh citizens got swept up in the Xinjiang internment drive, and Muslim groups in India, Bangladesh, and elsewhere have held protests.
- **AT A PERIODIC UN REVIEW** in Geneva on November 6, the U.S. called on China to “abolish all forms of arbitrary detention, including internment camps in Xinjiang, and immediately release the hundreds of thousands, possibly millions, of individuals detained in these camps.” Canada and France made similar statements.
- **SIX UN HUMAN RIGHTS EXPERTS** wrote a letter on November 12 criticizing the Xinjiang internment camps as violations of international law.
- **FIFTEEN FOREIGN AMBASSADORS** in Beijing, led by the Canadian Embassy, signed a letter raising concerns in mid-November and requesting to visit Xinjiang. The Chinese foreign ministry mocked this request at a press conference: “Maybe you could interview these ambassadors and ask them whether they have got all the facts straight before writing this letter... I think what they have done is very rude and unacceptable.”
- **OVER 610 SCHOLARS FROM 40 COUNTRIES** have signed on to a statement of concern about Xinjiang since it was established on November 26. The statement demands that China “immediately abolish the ‘transformation through education’ detention system and release all Uyghur, Kazakh, Kyrgyz, and other detainees.”
- **GERMAN HUMAN RIGHTS COMMISSIONER** Bärbel Kofler said on December 4 that her request for a delegation

to visit Xinjiang had been rejected, but that she would continue to press Beijing on the issue.

- **THE UNITED NATIONS HIGH COMMISSIONER** for Human Rights, Michelle Bachelet, confirmed on December 5 that her office has been “asking for direct access to the [Xinjiang] region to be able to check and verify the worrying reports we are receiving.”
- **OVER 110 SCHOLARS FROM SLOVAKIA AND THE CZECH REPUBLIC** signed an “Appeal for the Closure of Political Reeducation Camps for Uyghurs and Other Minorities” on December 10.
- **THE ORGANIZATION OF ISLAMIC COOPERATION**, the most important collective representative of Muslim-majority countries, finally heard testimony about Xinjiang in early December, and issued a statement on December 11 that “expressed concern on these disturbing reports on the treatment of Uighur Muslims and expressed hope that China...would address the legitimate concerns of Muslims around the world.”

WHAT IS NEXT?

THE CHINESE GOVERNMENT IS VERY UNLIKELY to yield to outside pressure to shut down the concentration camps. Officials see them as a necessary means to achieve what they call “total stability” (全面稳定 *quánmiàn wěndìng*). In December 2017, the Xinjiang government set a goal to achieve that state in five years’ time. And disturbingly, the Xinjiang model is being held up as an example for managing Islam by Chinese officials, with the Ningxia Hui Autonomous Region signing a “cooperation anti-terrorism agreement” to learn from Xinjiang’s “experiences in promoting social stability” in late November.

Absolute control over Xinjiang is also seen by Xi Jinping as a necessary part of his legacy. Former Australia prime minister Kevin Rudd explains it well: “If you want to seek the fundamental understanding for why we see repressive policies in Xinjiang at the moment, frankly, it’s so deeply etched into the political psychology of Chinese leaders, that those who lose parts of the empire are badly reviewed in history, [and] those who consolidate the empire and maintain Beijing’s control over it are reviewed well in history. Hence Taiwan, hence Tibet, hence Xinjiang.”



Xi Jinping has also staked his foreign policy legacy on the Belt and Road Initiative, and stability in Xinjiang is necessary for it to succeed. Xinjiang is an essential crossroads of two major parts of Belt and Road: The land “belt” part, which goes through Urumqi and passes into Kazakhstan, and the China-Pakistan Economic Corridor, which starts in Kashgar and ends at the important seaport of Gwadar.



International pressure on the government’s activity in Xinjiang has not been without effect, however. On October 9, the Xinjiang government passed amendments that finally effectively admitted that the camps exist and tried to justify them

with legal sophistry — though detentions without charge for more than 15 days cannot be legal unless the central government passes legislation to make it so.

It is possible that some detainees will be deemed properly “reformed” in 2019 and released. James Leibold, an expert on ethnic policy in China, has written that the type of extreme “re-education” ongoing in Xinjiang usually “elicits a mix of emotions. Some subjects comply, others withdraw; a few may even be enthusiastic at first. But over time the suffocating nature of repression also tends to breed resentment and resistance, and those in turn can bring about even more repressive methods of control.” So even if some are released, the results for stability could be mixed at best. Other possibilities besides gradual release are that the camps will become permanent living quarters for generations of Uyghur families, or that they will turn into death camps.

Propaganda from Beijing defends its management of Xinjiang as a success in avoiding “the fate of becoming ‘China’s Syria’ or ‘China’s Libya.’” But another possibility is that traumatized Uyghurs increasingly see common cause

with militant groups in Pakistan, Afghanistan, Turkey, and Iraq. There are already tiny numbers of such radicals — Beijing’s own system of camps might make its worst fears about Xinjiang come true.

Sadly, whatever happens, the atrocities being committed in Xinjiang will remain a dark and defining part of Xi Jinping’s legacy.

END NOTE

ON DEMONIZATION, AND THE HORRIFYING POSSIBILITIES SUGGESTED BY THE CAMPS

Excerpt from *One Long Night: A Global History of Concentration Camps*, by Andrea Pitzer

It is easy to demonize countries that have resorted to camps and to judge their citizens as unrecognizable monsters. But a close look at history reveals that nearly every nation has used camps at some point, though the degree to which their populations have embraced them and the devastation wreaked by each camp system have varied wildly. Their worst effects tend to be dampened in freer societies, where legal systems and legislatures have an opportunity to act. Yet a relatively healthy democracy is just as capable of instituting camps as the most corrupt Communist society or military dictatorship, sometimes with horrific results.

With few exceptions, camps are generally created to address real crises. They rarely succeed, more often trailing such damage in their wake that the original crisis is eclipsed. Nevertheless, the mechanics of many camps are similar in the first years. Even the most grotesque and deliberate detention-based genocide — the camps system of the Third Reich — began much like many others.



V. TOP BUSINESS AND TECHNOLOGY STORIES OF THE YEAR

OTHER THAN THE STOCK MARKET VOLATILITY, AND U.S.-CHINA TECH COMPETITION PARTICULARLY CONCERNING ZTE AND HUAWEI, COVERED IN SECTIONS 2 AND 3.

BYTEDANCE GOES BIG

BYTEDANCE BECAME THE WORLD'S MOST VALUABLE STARTUP. At the end of 2017, the company known best for making the AI-powered news app Toutiao was seeking a valuation of \$30 billion; today, it is worth over \$75 billion, more than Uber. In 2018, Bytedance gained international attention for the phenomenal success of its addictive short video app TikTok — called Douyin (抖音 dǒuyīn) in China — which absorbed music video app Musical.ly in August and now has over 500 million active users worldwide.

Viral content on Toutiao in particular has not gone unnoticed by the authorities. At the end of 2017, the Beijing branch of the Cyberspace Administration of China (CAC) ordered Toutiao to suspend updates for 24 hours for “circulating pornographic and vulgar information” and causing a “negative impact on public opinion.” In April 2018, the State Administration of Press, Publications, Radio, Film and Television (SAP-PRFT) criticized Toutiao for broadcasting content that went “against social morality.” Toutiao was suspended for three weeks.

Other Bytedance apps were also criticized. In April, TikTok temporarily removed its live stream

and comment feature for a “system upgrade” (a common euphemism for censorship), and another popular Bytedance-made app for sharing jokes, Neihuan Duanzi, was ordered by SAPPRFT to permanently shut down for hosting “vulgar” content. Bytedance CEO Zhāng Yīmíng 张一鸣 issued a public letter of apology on April 11.

Bytedance quickly rebounded. Its apps’ continued success is seen as the main contributor to a 7 percent decrease in total internet user usage time for Tencent between June 2017 and June 2018. A joke-sharing app suspiciously similar to the shuttered Neihuan Duanzi, Pipixia, was rolled out by Bytedance in August. Bytedance CEO Zhang’s success is all the more incredible considering that he is just 35 years old and has never accepted funding from China’s two internet-investing heavyweights, Alibaba and Tencent.

TROUBLE FOR JD, DIDI, AND TENCENT

TECH GIANTS — INCLUDING JD.COM, DIDI CHUXING, AND TENCENT — STUMBLED this year, all for different reasons.

- **ECOMMERCE FIRM JD.COM WAS ROCKED BY A RAPE ALLEGATION** against its CEO, Richard Liu (Liú Qiángdōng 刘强东). The accusation comes from a Chinese student at the University of Minnesota, which Liu had visited on August 31 as part of an executive education program. The unnamed woman described to police a “four-hour ordeal in which she repeatedly struggled to turn away Mr. Liu’s physical advances, until he eventually pinned her down on the bed in her off-campus apartment,” according to the Wall Street Journal. Liu was detained for a day, and his publicly released mug shot went viral on the Chinese internet. Prosecutors are currently considering whether to press charges against Liu, and a “decision is expected with-



in weeks.”

- **JD.COM’S STOCK MARKET VALUE HAS PLUNGED 49 PERCENT** since the beginning of the year, largely because of Liu’s uncertain fate, made all the more important because he is both CEO and chairman of the company and controls 80 percent of its voting rights. (Ecommerce companies in general also saw a drag from the trade war, with industry leader Alibaba’s stock market value sliding 11 percent this year.)
- **RIDE-HAILING GIANT DIDI CHUXING FACED A FULL-BLOWN SAFETY CRISIS**, after two female passengers were reportedly raped and murdered by their Didi drivers — the first in May, and the second in August. In between, Didi temporarily suspended its “Hitch” carpool service that the first woman had used, though the company took a tone-deaf approach to resolving issues — it changed its ride-hailing platform to only allow same-sex rides during late night and early morning hours, demonstrating more concern for its legal standing than women’s welfare, and later issued lots of misguided advice on how women should protect themselves from predatory drivers. After the second murder, another suspension of Hitch and an apology tour from Didi wasn’t sufficient to stem much of the resulting loss of trust. In November, China’s Ministry of Transport slammed Didi’s management of its drivers and safety as “out of control,” and said it would “severely crack down” on ride-hailing firms hiring illegal drivers. It also said it would fine Didi an undisclosed amount of money.
- **PLANS FOR DIDI’S IPO**, reported before the murders to be in motion for as soon as the second half of 2018 and for as high a valuation as \$80 billion, have apparently been delayed by the safety crisis. Some cities have threatened to ban Didi’s Hitch service, and the company has even considered permanently shutting it down. But Hitch is Didi’s most profitable service, and even with it operating at full steam for the first few months of 2018, the company reported an overall loss of \$582 million in the first half of the year amid bruising competition with Meituan Dianping.
- **INTERNET AND SOCIAL MEDIA LEADER TENCENT ANNOUNCED ITS FIRST DECLINE** in quarterly profits, from April to June, in nearly 13 years, due to a regulatory holdup since March for new video games. By August,

the Tencent stock was down 27 percent since January, and a further \$25 billion in value was lost upon the declining profits announcement. The video game side of Tencent's business received even more bad news later in the year, as regulators partially blamed games for an increase in eyesight problems in children, and established an opaque "Online Game Ethics Committee," which has so far reviewed 20 games and approved none of them.

GOOGLE IN CHINA

GOOGLE IS EAGER TO "RE-ENTER" THE CHINESE MARKET, and is building products — with censorship capability built in, of course — to compete with Baidu's search and Toutiao's news aggregation, it was revealed in August 2018. "Re-enter" is in quotes because Google never really left: After the company refused to continue to operate a censored search engine in the country in 2010, and was subsequently blocked by the Great Firewall, it maintained ad sales teams in the country, for example. Then throughout the last year, Google has tiptoed further back into the country, including by:



- Opening an artificial intelligence research center in Beijing in December 2017.
- Partnering with Tencent, Huawei, Xiaomi, and Baidu to distribute a file-organizing app called Files Go.
- Launching multiple apps of its own, including an AI-powered drawing app, the photo editor Snapseed, and Google Translate on the Chinese App Store for iPhones.
- Making strategic investments in U.S.-China biotech startup XtalPi and game-streaming platform Chushou.
- Signing a half-billion-dollar investment deal

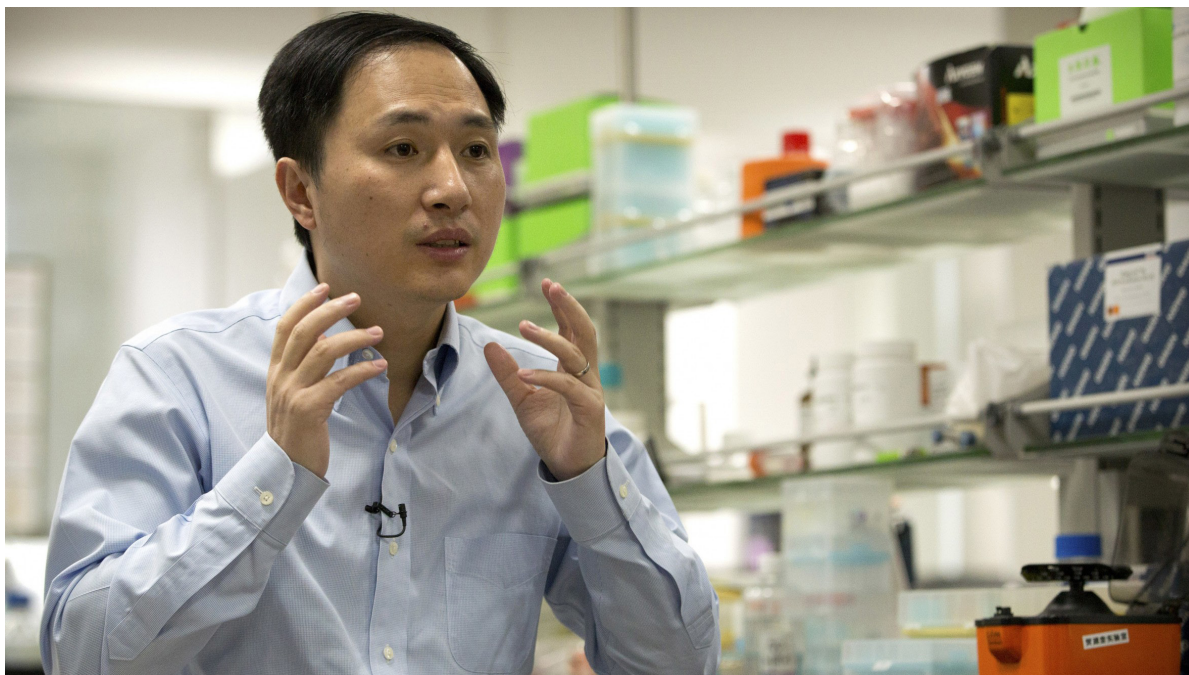
with Chinese ecommerce giant JD.com.

Internal leaks belied the claims of Google CEO Sundar Pichai that the censored search product in particular was an "exploratory" project and "not close" to launch — The Intercept obtained meeting notes from July 2018 that showed a leading search engine engineer at Google hoped to have the product ready in "six to nine months," and had told the hundreds of employees working on the project to be ready to implement an even shorter timeline if approval is greenlit.

The company's current executives have brushed aside concerns about censorship — the chairman of the Google parent company Alphabet, John L. Hennessy, went the whataboutism route and told the Wall Street Journal, "The truth is, there are forms of censorship virtually everywhere around the world" — though it is important to note that censorship may never have been the most important worry for Google in China in the first place. The Google blog post from January 2010, when the company announced it would review its operations in China and no longer censor search results, highlighted "a highly sophisticated and targeted attack on our corporate infrastructure originating from China that resulted in the theft of intellectual property from Google" as the primary concern.

It is unclear if Google will receive approval for its search engine in China. Matt Sheehan, a writer at MacroPolo, laid out some of the pros and cons from the Chinese government's perspective:

- Pro: A propaganda coup, and a de facto legitimization of China's internet governance by one of the world's most respected technology companies.
- Pro: Potentially more resources for international expansion for China's leading technology companies, especially if Tencent is the unidentified company partnering with Google on its new projects in China, as tech writer Elliott Zaagman has argued.
- Con: The possibility of another embarrassing pullout, should the inevitable domestic firestorm of criticism for Google or another factor change executives' minds. The firestorm has already begun: Besides the ongoing civil society uproar, a senior research scientist and several other employees have resigned from Google in protest, a bipartisan group of 16 U.S. lawmakers has raised concerns, and Vice



President Mike Pence has publicly urged Google to think twice about its search engine ambitions in China.

- Con: Beijing would lose whatever leverage it thinks it has from keeping Google in limbo amid U.S.-China trade tensions.

But the factor that leads Sheehan to predict China won't let Google back in is this: "Chinese officials likely feel that the Google-free status quo is working great. The Chinese internet economy is thriving, driven largely by domestic companies over which the government has greater leverage."

In December, The Intercept reported that the censored search engine project was effectively suspended, at least in the short term, due to an interdepartmental conflict within the company. Outside pressure and leaks also played a role. But at least some engineers at Google continue to study Chinese search patterns, and we doubt that the drive of Google's leadership to step further into the mainland China market is going to disappear in 2019.

MEDICAL MILESTONES, EVEN AT THE EXPENSE OF ETHICS

THE WORLD'S FIRST GENE-EDITED BABIES were created with the help of scientist Hè Jiànkui 贺建奎 in November, or so he claimed. According to

He, who studied biophysics at Rice and Stanford universities in the U.S. before returning to China to open his own research lab in Shenzhen, he altered embryos for seven couples to give their children a resistance to HIV infection. One couple gave birth to genetically altered twin girls.

The experiment, though not independently verified or published in a scientific journal, was met with immediate condemnation around the world. A group of 122 Chinese scientists condemned He's research in a statement, and called for an investigation. Xú Nánpíng 徐南平, China's vice minister of science and technology, called for a suspension of He Jiankui's research three days after the story came to light, and said that he had "violated the ethical bottom line that the academic community adheres to." A hospital whose ethics committee was supposed to have signed off on the research denied any involvement, and an AIDS support group expressed "deep regret" for helping He recruit parents to participate in the gene-editing experiments.

Gene-editing research on human embryos is outlawed in countries such as the U.S. and the U.K. because of ethical issues: Any modifications made at that stage will be inherited by future generations, and the safety of the procedure is not proven. China also prohibits the use of gene-edited embryos for reproduction, though it allows for experimentation on embryos up to 14 days old, and the law does not specify a punish-

ment for violations. The case of He Jiankui highlights what critics call a “do first, debate later” attitude in ethically controversial scientific experiments in China, and the lagging behind of ethics regulations in the country.

Meanwhile, other scientists in China in the last year have also forged ahead with pioneering experiments, though none quite as controversial as He Jiankui’s. The world’s first cloned monkeys were created in January by researchers at the Chinese Academy of Sciences Institute of Neuroscience. A Chinese and Italian surgeon duo continues to say that a human head transplant is “imminent,” though they’ve been saying that for over a year now, and medical experts are pretty sure that the procedure is not even possible. And the gene-editing technology that He Jiankui used, CRISPR-Cas9, has been applied in a variety of less controversial circumstances: Healthy mice were created using the DNA of two female parents using gene editing in October, and at least 86 adult human Chinese patients, many of them terminally ill with cancer, have had their DNA altered as part of experimental treatments since 2015.

BLOOMBERG CHIP HACK STORY

ANOTHER HARD-TO-BELIEVE — though in this



case almost certainly false — story came to light regarding Chinese technology via a bombshell report from Bloomberg Businessweek. The magazine published on October 4 “The big hack: How China used a tiny chip to infiltrate U.S. companies,” which alleged that Chinese spies had compromised America’s technology supply chain by installing tiny chips in hardware used by the CIA, Apple, Amazon, and nearly 30 American companies, according to an ongoing investigation by U.S. authorities. Supermicro was identified as the unwitting American hardware supplier whose China-sourced server motherboards had supposedly been outfitted with rice-grain-sized implants by a secretive Chinese military unit.

But no confirmation came from U.S. authorities, and the companies in the story all came out with surprisingly unequivocal denials of any knowledge of compromised computer chips from China. The Chinese government also denied the charges. Then a named hardware expert in the story said that the hack as described just “doesn’t make sense,” and that the technical details were “jumbled” — though Bloomberg continued to stand by its reporting. By October 19, Apple CEO Tim Cook took the unprecedented step of calling for a retraction of the story, something that his company has never publicly done before. On October 22, Andy Jassy, CEO of Amazon Web Services, agreed with Tim Cook: “Reporters got played or took liberties. Bloomberg should retract.” In late November, the Washington Post reported that Bloomberg reporters were doing “more digging” into the story to get to “ground truth.” On December 11, Supermicro said that an outside investigation had found no evidence of tampered motherboards.

What happened? There are broadly three possibilities:

- **SOME U.S. GOVERNMENT OFFICIALS LIED** to or misled Bloomberg, and confirmed hacking that did not occur either due to confusion about the technical details or due to a desire to further sully the reputation of Chinese technology. This appears to us the most likely possibility, because if damage to China’s reputation is what was intended, it has already worked — the rumors of Chinese hardware hacking will continue at a higher volume throughout 2019 than before the Bloomberg report, even if it is retracted.
- **THE COMPANIES ARE ALL LYING**, to save

their own reputations. But given their surprisingly aggressive and uniform denials of the details of the hack, this seems unlikely.

- **BLOOMBERG REPORTERS GOT CONFUSED** about technical or procedural details in the story. With the technical details as “jumbled” in the story as hardware security experts said they were, this seems possible. There were also multiple alleged hacks going on at the same time, including a firmware attack on Supermicro, and it is possible that reporters mixed up investigations into separate hacking incidents.

STARTUP IPOS, DUAL LISTINGS, AND MSCI

SEVERAL IMPORTANT STARTUPS WENT PUBLIC IN 2018, as well as a couple of large state-owned companies and a few subsidiaries of larger tech companies. It was reported in March that Beijing was pushing for companies of all sizes to dual-list in mainland China using Chinese depository receipts (CDRs), and at first many of China’s largest tech companies sounded optimistic about that possibility. But after a few months, Alibaba decided to delay its dual-listing plans, as regulators continued to work out the kinks in the CDR system. The trade war and stock market volatility haven’t helped.

But it wasn’t all bad news for mainland Chinese stock markets this year. The long-awaited listing of 234 mainland stocks in the influential MSCI Emerging Markets Index finally went live on June 1. These so-called “A shares” increased from a 2.5 inclusion factor to a 5 percent inclusion factor on September 3, with potential plans to increase their weighting even further, conferring a modicum of financial credibility to mainland markets that could help bring in billions over time.

Notable listings of independent, privately-owned companies this year include:

- **XIAOMI, THE WORLD’S FOURTH MOST POPULAR SMARTPHONE MAKER** (after Samsung, Apple, and Huawei), which listed in Hong Kong at the end of June to raise \$4.72 billion and reach a valuation of \$54 billion. But both of these numbers were about half of what some insiders had hoped — raising \$10 billion to reach a \$100 billion valuation.



Xiaomi was supposed to have been the first Chinese company to dual-list on the Shanghai stock market using CDRs, but that plan was delayed at the last minute due to what Bloomberg called “intransigent regulators, lack of clarity from the central government and a company sticking by its own deadline.”

- **PINDUODUO, THE SECOND MOST POPULAR ECOMMERCE COMPANY** in China as measured by monthly active users (behind Alibaba, ahead of JD.com), filed for a \$1.63 billion IPO on the Nasdaq to reach a value of up to \$24 billion.
- **MEITUAN-DIANPING, THE FOOD-DELIVERY-AND-EVERYTHING-ELSE COMPANY**, leaped ahead of Xiaomi and JD.com in market value with its IPO in Hong Kong in September.
- **NIO, AN ELECTRIC-CAR STARTUP**, went public on the New York Stock Exchange in September.
- **QUTOUTIAO, A NEWS AGGREGATOR** competing with Bytedance’s Toutiao, went public in September on the Nasdaq. These three September tech IPOs — Meituan, NIO, and Qutoutiao, were all initially shaky, but then gained more in following days, even as China’s “big three” tech companies (Alibaba, Tencent, and Baidu) were battered by regulations in Beijing and the U.S.-China trade war.
- **HAILAO, A POPULAR HOTPOT RESTAURANT CHAIN**, also went public in Hong Kong in September, with plans to expand more into the U.S., Canada, and the U.K.
- **NIU, AN ELECTRIC SCOOTER STARTUP**, went public on the Nasdaq in October.
- **GRINDR, THE WORLD’S MOST POPULAR GAY DATING APP**, which is owned by Chinese company Kunlun Group, announced on August 30 that it is planning an overseas IPO, though the timing and location have not yet been announced.

Notable state-owned companies also began trading on stock markets this year:

- **BEIJING ELECTRIC VEHICLE CO. (BJEV)** began trading on the Shanghai Stock Exchange following its \$4.5 billion purchase by BAIC Group in January. It now competes more directly with leading domestic carmaker BYD, as both companies are buoyed by high investor enthusiasm in electric vehicles.
- **CHINA TOWER, THE WORLD'S LARGEST TELECOM TOWER OPERATOR**, raised \$6.9 billion in its Hong Kong IPO in early August.

And at least two large subsidiaries of tech companies also went public, one of them in Shanghai:

- **FOXCONN INDUSTRIAL INTERNET**, a subsidiary of the company that famously makes iPhones, became the largest tech company listed in mainland China with its debut on the Shanghai Stock Exchange which drew in nearly \$4 billion in June.
- **TENCENT MUSIC, A MUSIC-STREAMING SERVICE**, raised \$1.1 billion on the New York Stock Exchange in December, reading a value of \$21.3 billion.

ARTIFICIAL INTELLIGENCE BUBBLE BURST?

INVESTMENT IN ARTIFICIAL INTELLIGENCE (AI) DECLINED after years of intense hype. From 2013 through the first quarter of 2018, 60 percent of all funds raised for AI products went to China, according to a report by Tsinghua University. In 2017, private investment in Chinese AI had neared \$5 billion, edging out the U.S. and leading to overvaluations. But in the first half of 2018, the \$1.6 billion invested in Chinese AI was less than one third of that raised in the U.S. Yet China's leading AI companies continue to plow forward: Facial recognition company SenseTime Group became the most valuable AI startup in the world in April, reaching a valuation of more than \$3 billion.

ONLINE FINANCE TROUBLES

THE PEER-TO-PEER (P2P) LENDING INDUSTRY COLLAPSED, as the government initiated a crackdown after years of underregulating online finance. The

number of defaulted platforms shot up from 10 in May to 163 by the end of July. Heartbreaking stories of individuals losing their life savings to unstable P2P companies were common in 2018, and potentially thousands of outraged investors tried to protest at the China Banking and Insurance Regulatory Commission (CBIRC) in Beijing on August 6, but that was stopped short by what AFP described as a "massive police dragnet [that] rounded people up and took them away in buses."

Meanwhile, the crackdown on pyramid schemes continued from last year. The arrest of Zhāng Tiānmíng 张天明, founder of Shanxinhui — a multi-level marketing scheme to which 6 million investors had contributed over 100 billion yuan (\$14.5 billion) — in July 2017 sparked large protests in the heart of Beijing by investors who still believed in the company. Hundreds of those protestors were detained, and 142 faced criminal charges. In December 2018, Zhang was sentenced to 17 years in prison, and nine Shanxinhui employees were also given prison time.

SWINE FEVER

AFRICAN SWINE FEVER SWEEPED ACROSS THE CHINESE PIG-FARMING INDUSTRY, with the first case reported in August and the 87th case being reported in December. There is no cure for the disease — typically infected pigs die within a week — so over half a million hogs were culled to slow its spread. On November 14, China's ministries of agriculture, transport, and public security declared the epidemic "very serious" (十分严峻 shífēn yánjùn), and the virus soon spread to over 20 provincial-level regions across the country. Though the virus does not threaten human health directly, its outbreak in China is raising alarm internationally: It is now virtually guaranteed to spread to hog farms in other parts of Asia, and



possibly across the Pacific to the United States.

CONTROLLING CRYPTOCURRENCY

BEIJING WORKED TO FURTHER CONTROL BITCOIN

and cryptocurrencies, after last year already cracking down on both initial coin offerings and the operation of large virtual currency exchanges, and in January 2018 working to disincentivize bitcoin production in the country. Bloomberg has reported that the People's Bank of China's own software developers have "registered 78 digital currency patents" since 2016, including "44 blockchain-related patents" up to August 2018. The reported plan, which has not yet been put into action, is to design and launch an alternative cryptocurrency that would "enhance the PBOC's ability to root out risks and crack down on money laundering," but without that pesky decentralization that Chinese authorities can't stand.

Another way that Beijing is bending cryptocurrency to its will: Draft regulations from the Cyberspace Administration of China introduced in October aim to censor the blockchain, the technology underlying all cryptocurrencies. While this would seem to defeat the purpose of blockchain, which is to securely record all changes (not just ones the government approves of) that occur in the transaction history of a product, it could result in the blockchain world being divided in two, much like the internet already has been. Beijing is apparently upset that some activists, including #MeToo campaigners and citizens concerned about vaccine safety (see section 7 for more), had recorded permanent and not erasable messages on the blockchain of the cryptocurrency Ethereum.

GRAY RHINOS TO BE LET LOOSE?

THE GOVERNMENT TOOK OVER TWO TROUBLED COMPANIES,

insurance group Anbang and oil conglomerate CEFC China Energy, in February and March, respectively. Anbang, whose billionaire chairman, Wú Xiǎohuī 吴小晖, was detained by authorities in June 2017, is one of the "gray rhinos" criticized by the government for overzealous international acquisitions and debt accumulation in July 2017. Wu was later charged with "economic crimes," and his company with "illegal business practices." The China Insurance Regulatory Commission (CIRC) will now control

Anbang, which famously owns the Waldorf Astoria hotel in New York, until February 2019. CEFC China Energy was taken over by Shanghai Guosheng Group, and its chairman, Yè Jiǎnmíng 叶简明, was detained for questioning just before the takeover.

Another "gray rhino" in trouble is HNA, but mostly for an entirely unexpected and tragic reason: Its chairman, Wáng Jiàn 王健, died on July 3 after falling off a 15-meter-tall wall in France during a business trip. The company he left behind was in a tough spot: more than \$90 billion in debt, with one third of that debt due in 2018, and in the process of selling off some of its most prized assets to make ends meet.

Later in the year, it emerged that Beijing may be easing up on overseas spending by companies, and the pinch on "gray rhinos" may no longer be felt in 2019. Real estate conglomerate Dalian Wanda, also identified as a gray rhino, recently made its first major investment after a large period of downgrading its plans — \$1.74 billion for a theme park at Communist revolution birthplace Yan'an to cash in on the "red tourism" trend.

As this Red Paper is published, the trend toward more debt-friendly policies, including a potential stimulus if the economy continues to worsen, is becoming clearer.

BIKE-SHARE PROBLEMS

THE TWO LEADING BIKE-SHARING FIRMS HIT BUMPS,

with Ofo having an especially bad year. While Mobike accepted an acquisition offer from Meituan-Dianping in April, Ofo turned down an offer from Didi Chuxing. Ofo then retreated from international markets, including Australia, Austria, the Czech Republic, Germany, India, and Israel, in July amid a cash crunch. Many Ofo users later complained that they could not apply for deposit refunds in the app. By the end of the year, it was reported that Ofo was on the verge of bankruptcy.

Mobike's year also held problems, though it appears more likely to continue to exist as a company in 2019. The Meituan acquisition did little to curb its continuous loss of active users, and in September, Bloomberg scrutinized Mobike's user numbers as revealed in Meituan's prospectus and found that the bike-sharing giant had been inflating figures, even after the acquisition. Also in



September, vandalism of bikes became such a big problem for Mobike in Manchester, U.K., that it announced it would leave the city.

CHINA'S ROLE IN CLIMATE CHANGE: GLOOMY, PERHAPS DOOMY

BAD NEWS ON CARBON EMISSIONS: They increased in China in 2018. This happened after a few years of reports generally indicating that emissions may have peaked. Even in July, a study in *Nature Geoscience* found that "China's emissions peaked in 2013 at a level of 9.53 gigatons of CO₂, and have declined in each year from 2014 to 2016." A coauthor of that report also argued that 2017's emissions were overestimated. But a Global Carbon Project assessment in early December indicated that China's emissions in 2018 rose, and not by a small amount — increased coal consumption driven by industry pushed carbon emissions from China up by as much as 4.7 percent.

It is commonly said that China is the decisive factor for climate change in the 21st century. In several ways, this is unfair to China: No major country has quickly industrialized and found a carbon-lite, sustainable path to development at the same time. Western countries all polluted widely in the

19th and 20th centuries, before later adopting stricter regulations on industry. China also faces even more pressure to lead on climate change as the United States puts its head in the sand. But it is also true at this point in time, and the good news is that China remains on track to have its emissions permanently peak before 2030, as promised in the Paris Agreement. More aggressive methods to contain emissions, such as the long-awaited cap and trade market, could be implemented starting in 2019.

OTHER NOTABLE BUSINESS AND TECHNOLOGY STORIES

- **AMERICAN ELECTRIC-CAR MANUFACTURER TESLA** received approval to build China's first wholly foreign-owned car factory in Shanghai in July, after it was announced in April that ownership limits for the sector would be lifted by the end of the year. Tesla spent \$140 million for a plot of land, and plans to start production at its new factory in the second half of 2019.
- **SMARTPHONE SALES PEAKED IN 2017**, data from Canals revealed in early 2018, suggesting one of two economic possibilities. Either the low-hanging mobile fruit is

gone, and weaker mobile phone manufacturers and potentially the phone-making section of the economy as a whole is set to suffer, or a truly networked China could unlock new potential avenues for growth.

- **A LUNAR LANDER SET TO EXPLORE THE DARK SIDE OF THE MOON** launched on December 8. Chang'e-4 is expected to land sometime between January 1 and 3, 2019, and will signal its findings from the previously unexplored terrain back to Earth via the Queqiao satellite that China launched on May 21.



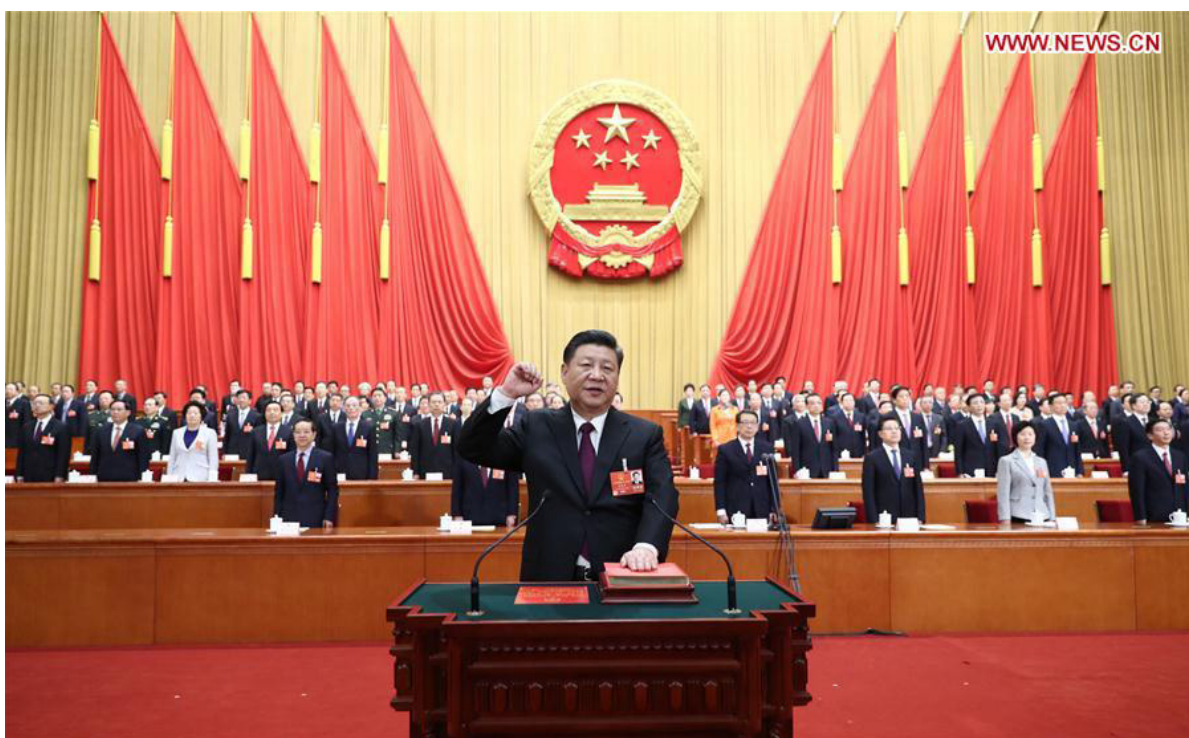
- **A FEW NOTABLE ROCKET LAUNCHES ALSO HAPPENED:** OneSpace became the first private Chinese company to launch a payload-carrying rocket in May, though another company, i-Space, beat it to become the first Chinese company to launch a space rocket (without payload) a few weeks earlier. Both rockets, however, used "retired Chinese missiles" from the military, rather than building all the technology from scratch. In all, there are now 80 Chinese startups in the space industry, though in general, they still lack the technical skills and experience of companies like SpaceX.
- **AT LEAST 18 FACTORIES IN CHINA STILL USE CFC-11**, an ozone-killing substance that warms the globe 4,750 times faster than CO₂. The substance was banned under the Montreal Protocol, but it retains prominence in China because it is cheap and effective at insulating.
- **DOZENS OF VILLAGERS WERE PUNISHED** for burning low-quality coal in Hebei Province in December. The case led to worries that northern China was heading toward a repeat of the heating crisis of the winter of 2017.
- **CARCINOGENS WERE FOUND IN BLOOD PRESSURE MEDICATIONS** being shipped to the United States, Taiwan, and elsewhere from Zhejiang Huahai Pharmaceuticals, Tianyu Pharmaceutical, and Rundu Pharma in early August. The American FDA issued a recall of the drugs.
- **THE FUTURE OF CHINESE TOURISM TO THAILAND** was thrown into doubt after a pleasure boat sunk off the coast of Phuket with 47 Chinese citizens on board in July. But by late December, Chinese tourism to Thailand set records anyway, with over 10 million visitors.
- **A STATE-OF-THE-ART RADIO TELESCOPE** was unveiled in Shijiazhuang, Hebei Province, on February 6. Its design was a collaboration of 10 member countries, and once it is fully tested, it is set to join a network of at least 130 other telescopes to study the universe and map the sky in unprecedented detail.
- **BATTERIES FOR ELECTRIC CARS** are increasingly being made in China. As Chinese firms have locked down supply chains for cobalt, an essential material in the production process, Chinese auto companies have ramped up production of batteries. In June, BYD started building a \$1.5 billion factory in Qinghai as part of a plan to quadruple its battery output in two years.
- **A PROPERTY TAX MAY BE ENACTED IN 2019**, as Ministry of Finance officials told reporters in March that a "real estate tax law" was being drafted and could be reviewed within the next year.
- **TENCENT LAUNCHED A SHORT-LIVED SOCIAL CREDIT SYSTEM**, similar to Alibaba's Sesame Credit, in January. But the People's Bank of China hit pause on the program just a day after its launch, reportedly due to "ongoing concerns about the misuse of credit and personal-credit information."
- **ECOTOURISM** construction is killing Chinese sturgeon, the fisheries bureau of Hubei Province said.
- **ECOMMERCE GIANT JD AND JUWAI.COM** announced a partnership to list overseas residential properties on JD.com, making it even easier for cashed-up mainland investors to buy houses and apartments in cities across the globe.
- **FAKE FOLLOWERS AND THEIR "FUNDAMENTAL ROLE"** on Chinese social media were highlighted this year. Weibo bots make up as much as 40 percent of the platform's active users, triple the proportion on Twitter. But most Western brands have no clue about the role of bots on the Chinese internet when

they first open their accounts. Fake news via self-media — zi meiti (自媒体 zì méitǐ), referring to independently operated social media accounts — was also highlighted as a hub for misinformation. In 2016 alone, more than 2,000 fake news stories reportedly appeared on WeChat.

- **JACK MA IS A COMMUNIST PARTY MEMBER**, it was revealed, though the news about

the Alibaba co-founder should really not be surprising: Practically all successful entrepreneurs in China necessarily maintain close relations with the Communist Party.

- **GLOBAL CO-WORKING GIANT WEWORK** expanded further into China, and bought Shanghai-headquartered Naked Hub for \$400 million.



VI. TOP POLITICS AND CURRENT AFFAIRS STORIES OF THE YEAR

OTHER THAN THE U.S.-CHINA TRADE WAR, GLOBAL BACKLASH OVER BEIJING'S INFLUENCE, AND ABUSE OF MUSLIMS IN XINJIANG, AS HIGHLIGHTED IN SECTIONS 2 THROUGH 4.

XI JINPING ELIMINATES TERM LIMITS

XI JINPING SET HIMSELF UP AS PRESIDENT FOR LIFE

at one of the most significant Two Sessions political gatherings in years in March. This year's assembly of the rubber stamp National People's Congress (NPC) — one of the two parts of Beijing's annual political ritual, the other being the meeting of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) — abolished the two-term limit on the presidency with a vote of 2,958 in favor and two

opposed. As Xi swore his oath of office to begin his second five-year term, state media reported that "thunderous applause resounded" in the Great Hall of the People, and cameras captured tears of joy streaming down delegates' faces.

Of course, Xi Jinping was already the "Chairman of Everything": He has long been general secretary of the Communist Party of China and chairman of the Central Military Commission, two top-level positions that do not have formal term limits (he is also the head of at least 10 other entities, commissions, and leading groups). Since at least

January 2016, provincial-level authorities and state media have also praised Xi as the “core leader” of the Party, a title of almost absolute authority last held by Dèng Xiǎopíng 邓小平. The Party then elevated Xi as a permanent ideological leader when it enshrined “Xi Jinping Thought” in its constitution at the 19th Party Congress in November 2017.

The final formal elimination of time restrictions on Xi Jinping’s power this year, then, was not surprising. But it was undeniably significant, as it signals a return to a strongman style of governance in China that many had thought, before Xi came to power, was fading. Even some of the most sanguine commenters on Xi Jinping’s tenure, such as Cheng Li of the Brookings Institution, said as much: This is a “power grab,” Li wrote with dismay, that will “revert the country back to the era of strongman politics and the personality cult,” adding that Xi had squandered “a precious opportunity to institutionalize the peaceful transfer of power in the PRC.”



Chinese state media and allies of the Chinese government argued that the “new era” of unstable geopolitics demanded a firm and consistent leadership, and that the further power consolidation of Xi was necessary to break up entrenched domestic interest groups. The Financial Times reported that Xi had told foreign dignitaries that he was “personally opposed” to lifelong rule, and that the term-limit elimination was necessary to “align the country’s three top government and Communist Party jobs.” Of course, there may have been other reasons Xi saw it necessary to make this move now, such as the need to fend off challenges from rivals formed in the course of the anti-corruption campaign.

Naturally, none of this was up for discussion for the Chinese public, among whom the news was also controversial, as censors did their best to pluck social media clean of dozens of different references to the news, particularly forbidden


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13-9-2 17:31 来自专业版微博

#小熊维尼的智慧# 找到一样你所钟爱的事物，然后，永不放手。Find the thing you love and stick with it.



Winnie the Pooh memes.

Meanwhile, Xi’s personality cult is building. On the front page of the People’s Daily in the first half of 2018, Xi appeared in at least one headline nearly 100 percent of the time — the most frequent for a Chinese leader since Mao Zedong during the Cultural Revolution. When mention of his name disappeared for a handful of days over the summer, the absence was so jarring to some observers that they speculated a coup had happened. At Chinese universities, meanwhile, “Xi Jinping Thought” centers are being established by the dozens, and nearly 13,500 papers were published in 2017 with “Xi Jinping” in the title, twice the number in 2014.

The increasing authoritarianism of Xi’s rule drew few public high-profile criticisms within China. The most notable was written by Xǔ Zhāngrùn 许章润, a law professor at Tsinghua University in Beijing, on July 24. In a long essay full of literary allusions, Xu described an “uncertainty about the direction of the country” that was rising to the level of panic under Xi, and directly called on Beijing to reverse the term-limit decision. The scholar Geremie R. Barmé, who worked on a detailed translation of Xu’s essay, called it “a challenge from the cultural heart of China to the political heart of the Communist Party.” Barmé predicted that its message will “resonate deeply throughout the Chinese party-state system, as well as within the society and among concerned citizens more broadly.” Many overseas China-watchers commented that this essay might come to be seen as the peak of the Xi Jinping cult.

Another notable Chinese intellectual, however,



cautioned against underestimating the resilience of both Xi Jinping and the Communist Party. Dèng Yùwén 邓聿文 wrote on September 19 that especially Chinese dissidents, liberals, and other malcontents have popularized two false theories: that the Party is rapidly decaying (中共速朽论 zhōnggòng sùxiǔ lùn) and that Xi Jinping is incompetent (习近平无能论 xíjìnpíng wúnéng lùn).

GOVERNMENT RESHUFFLE

A MAJOR GOVERNMENT REORGANIZATION, and new top-level appointments, also came out of this year's Two Sessions in March. Some of the most important changes to cabinet-level ministries and sub-ministerial departments include:

- **THE CHINA BANKING AND INSURANCE REGULATORY COMMISSION (CBIRC)** was created by merging the China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC). This is the biggest regulatory overhaul for China's \$43 trillion banking and insurance industry since 2003. Guō Shùqīng 郭树清 — the former CBRC chairman who earned the nickname "whirlwind Guo" for issuing something
- like 80 policy directives while cracking down on insider trading and market manipulation during a 17-month stint as head of China's securities regulator from 2011 to 2013 — was appointed to head the new CBIRC.
- **THE STATE ADMINISTRATION OF MARKET REGULATIONS (SAMR)** was formed, centralizing the antimonopoly decision making that had previously been made by three bodies — the National Development and Reform Commission (NDRC), the Ministry of Commerce, and the State Administration for Industry and Commerce (SAIC).
- **THE MINISTRY OF ECOLOGY AND ENVIRONMENT** was founded, as an expanded and significantly more streamlined version of the old Ministry of Environmental Protection. Lǐ Gànjié 李干杰 kept his role as minister of the agency, and went to work on China's transition from coal to natural gas, as well as significantly reducing smog within three years — a timeline that leading economic policy adviser Liú Hè 刘鹤 also advertised at the Davos forum in January.
- **A MINISTRY OF NATURAL RESOURCES** was created. It has broad oversight powers on how water and land can be used and absorbed some responsibilities of the National

- Development and Reform Commission.
- **A MINISTRY OF VETERANS AFFAIRS** was founded, notably in the wake of protests by veterans in Beijing in February 2017 over unpaid retirement benefits. By June 2018, however, more than 1,000 retired soldiers expressed their continued grievances by protesting for four days in Zhenjiang, in Jiangsu Province.
- **A CHINA INTERNATIONAL DEVELOPMENT COOPERATION AGENCY (CIDCA)** was founded, to coordinate foreign aid and specifically “better serve the country’s global strategy and to build the ‘Belt and Road Initiative,’” according to the State Council.

An extremely powerful anti-corruption body called the National Supervisory Commission (NSC) was also proposed and approved on the final day of legislation as a supplement to the Central Commission for Discipline Inspection (CCDI), with the power to detain and investigate any public government employee, whether or not they are a Communist Party member. Yang Xiǎodù 杨晓渡, a deputy head of CCDI, was appointed to lead the NSC. The NSC notably took down Interpol president Mèng Hóngwěi 孟宏伟 by surprise later in the year, as explained in the next section.

A few major appointments also came out of the Two Sessions, other than Guo Shuqing, Li Ganjie, and Yang Xiaodu, noted above. These include:



- **WÁNG QÍSHĀN 王岐山**, the trusted adviser of Xi Jinping, was appointed to vice president, though the way he was presented on state media made it clear that he is in effect an eighth member of the Politburo Standing Committee. Wang broke retirement norms with his appointment at age 69, as age 68 had been the limit for top officials to stay in

power since 2002.

- **GUO SHUQING WAS ALSO APPOINTED** to be Communist Party secretary of the People’s Bank of China (PBoC), in addition to his role as head of CBIRC. This means that even though Yi Gāng 易纲, a low-key technocrat, was appointed to be governor of the PBoC, Guo has more decision-making power while Yi is more in charge of implementing monetary policy.
- **LIÚ HÈ 刘鹤**, the leading economic policy adviser, was appointed to be a vice premier overseeing financial and industrial policy. Both Guo Shuqing and Yi Gang report to Liu He. Liu also went on to play a central role in U.S.-China trade negotiations throughout 2018.
- **FÙ Zhènghuá 傅政华**, previously a deputy head of China’s ministry of public security known for prosecuting activists and rights lawyers, is now Minister of Justice.
- **LIÚ KUN 刘昆** was appointed as Minister of Finance.

Other items of note from Two Sessions: China targeted a 6.5 percent GDP growth figure, but notably without last year’s caveat that it could be “higher if possible in practice.” The military budget was given its largest boost in three years, an 8.1 percent increase to 1.1 trillion yuan (\$173 billion), while the budget for diplomacy received a 15.6 percent bump to 60 billion yuan (\$9.45 billion).

Amid all the humdrum proceedings of the 15.5-day-long Two Sessions, one viral moment stood out and represented how close observers felt having to pay attention. A planted question from a “foreign” media organization, a U.S.-based news media channel named AMTV that is affiliated with China’s CCTV, was asked by its journalist in such a softball way that the reporter standing next to her rolled her eyes dramatically — instantly becoming a meme.



FAN BINGBING AND MENG HONGWEI

EVEN THE MOST POWERFUL AND FAMOUS CHINESE WERE DISAPPEARED

without trial in the first year of Xi Jinping's second term. First it was superstar actress Fàn Bīngbīng 范冰冰, who suddenly went incommunicado after June 2, and did not resurface until four months later, on October 3. As suspected, she was investigated for tax fraud, and now owes an astounding \$130 million in taxes, fines, and late fees. But the point authorities were making — that absolutely no one is above the control of the Party — was made clear in her apology statement, which included the line, "Without the good policies of the Party and the state, without the love of the people, there would be no Fan Bingbing."



Then, just days after Fan's reappearance, it was reported that the Party had gone to previously unimagined lengths to assert its authority over Chinese citizens: Mèng Hóngwēi 孟宏伟, the senior Chinese police official who became the president of Interpol, the international criminal police organization, in 2016, was reported missing in early October. Interpol was caught totally off guard, and the highly political nature of a Ministry of Public Security statement against Meng hints that corruption is merely an excuse for taking Meng down. Meng has still not been heard from, and the incident has badly damaged China's reputation in international organizations.

The two dramatic cases of Fan and Meng are not without precedent, however. In early 2017, Chinese police abducted billionaire investor Xiāo Jiànhuá 肖建华 from a hotel in Hong Kong, and to this day, he has not been seen again in public. A trial against him for stock price manipulation and bribery is now proceeding in Shanghai. What is new in 2018 is the use of the National Supervisory Commission, an anti-corruption organization

created at this year's Two Sessions that has the power to detain any public employee, even those who are not Party members, without a court order.

HONG KONG LOSES ITS FREE PRESS

PRESS FREEDOM DIED IN HONG KONG on October 5, 2018. That is the day the city's government refused to renew a visa for Victor Mallet, the Asia news editor of the Financial Times and the vice president of the local Foreign Correspondents' Club, as retribution for his chairing a talk by pro-independence activist Andy Chan (陈浩天 Chén Hàotiān) at the FCC in August. The politically based visa denial is a tactic straight from Beijing's playbook, and shows that the city can no longer meaningfully claim to have a free press. Up until that point, ever since the official handover of Hong Kong's sovereignty from Britain to Beijing on July 1, 1997, the city had enjoyed a thriving — and largely uncensored — news media. The Hong Kong edition of the China Daily made clear on October 9 that for anyone in Hong Kong, including foreign journalists, to "challenge the power of the central government" now crosses a "red line."



In August, Andy Chan's pro-independence Hong Kong National Party had not yet been banned, though the government had been threatening to invoke an obscure clause of the Societies Ordinance to do so since July 17. On September 24, that political party was banned, in one of many moves that observers saw as moving Hong Kong closer to being just another Chinese city in 2018.

In one instance in March, the Hong Kong government followed Beijing's lead and proposed a maximum penalty of HK\$50,000 and three years in prison for anyone breaking the new national anthem law. In April, the Hong Kong Baptist Uni-



versity decided to punish two students who led protests in January against compulsory Mandarin-language proficiency tests. And two controversial infrastructure-related developments also drew Hong Kong and the mainland closer together: A part of a high-speed rail terminal became under mainland jurisdiction on September 4, and a massive bridge from Hong Kong to Macau and Zhuhai was opened on October 23.

TRUMP FOLDS ON NORTH KOREA

CHINA GOT EXACTLY WHAT IT WANTED ON NORTH KOREA, as Donald Trump met with Kim Jong-un in Singapore on June 12 and very easily agreed to a major concession that China has sought for years: an indefinite freeze on American military exercises with South Korea. The Chinese foreign ministry was very blunt about this — the result was what China had been “striving for all along,” and the “suspension for suspension” of no military drills, no nuclear tests, has been effectively implemented.

Denuclearization is another matter altogether. Trump appears to have happily deluded himself into believing that he signed a “contract” with Kim Jong-un that bound North Korea to entirely dismantle its nukes — in reality, the agreement

signed is less specific and strong than the last signed with North Korea in 2005, which the Hermit Kingdom soon broke. As Andrei Lankov, a Russian expert on North Korea, and one of the more upbeat commentators leading up to the Trump-Kim summit, concluded in July, “The last nail has been put into the coffin of hope for a meaningful arms control deal,” and the “U.S. policy towards North Korea...is heading towards a major debacle at remarkable speed.”

The type of maximum-pressure campaign that Trump actually did succeed in building — through persuading China to up its sanctions to unprecedented levels, and scaring South Korea into all-holds-barred diplomacy with warmongering rhetoric — is unlikely to ever happen again. For the foreseeable future, there are two big roadblocks: Trade tensions have increased dramatically between the U.S. and China since the summer, and the strength of U.S.-China diplomacy on North Korea was probably only possible through the deprioritization of other issues such as trade in U.S.-China relations. And secondly, China and North Korea now have substantially closer relations.

Kim Jong-un visited Xi Jinping in China no less than three times in three months — twice before and once after the Singapore Summit — and on

each occasion, relations strengthened between China and North Korea. The first two times, Kim sought advice and backing, while China sought to show the U.S. that there was no daylight between Beijing and Pyongyang, to guard against the possibility of a U.S.-aligned Korean Peninsula. The third time, Kim came as China began to loosen sanctions on North Korea, and a visit by Kim and his advisers to the Chinese Academy of Agricultural Sciences even led to speculation that the North may seek Beijing's advice for economic development.

While Xi has still not made a trip to North Korea, despite rumors twice this year that plans were being considered, North Korea's transformation from a rogue, isolated state to a widely recognized nuclear power is now well on its way. Paul Haenle of the Carnegie Endowment for International Peace, who worked on North Korea negotiations in the Bush administration, says that if Trump meets Kim again without preconditions on denuclearization, North Korea "will come to the conclusion that the US has acknowledged that North Korea is a nuclear state."

VATICAN-BEIJING BREAKTHROUGH

THE VATICAN AGREED TO A PROVISIONAL DEAL WITH BEIJING, even as the repression of Christianity in China reached new extremes. Since Jesuit priest and missionary Matteo Ricci became the first European to enter the Forbidden City in 1601, the Catholic Church has been trying — and mostly failing — to work out a deal with Beijing. In recent decades, the foremost issues have been the appointment of bishops and the existence of the Catholic Patriotic Association, a parallel church leadership structure in China with Beijing, not the Pope, at the top.



The provisional deal agreed to on September 22 unifies the decision-making power to appoint

bishops, and places the Vatican at the top with what Pope Francis called a "dialogue" between himself and Beijing, in which "the pope will appoint" bishops. Though the exact details of the deal have not been publicly revealed, the Vatican confirmed that, as part of it, the Pope has recognized the legitimacy of seven Chinese bishops selected by Beijing that had previously been excommunicated in Rome. Taiwan, which counts the Vatican as one of its fewer than 20 diplomatic partners, said that it received assurances that the agreement "will not affect the diplomatic relationship" between Taipei and the Holy See, but some diplomats see the agreement as a precursor to a switch in recognition.

If the deal is formally agreed upon in 2019, it will be hugely consequential for the approximately 12 million Catholics in the Middle Kingdom — and controversial around the world. This is largely because it comes at a time of broadly increased religious repression in China: Not just Muslims (see section 4) but also Catholic and Protestant Christians have all recently seen even worse relations with the government than usual. Just before the provisional deal was agreed upon, authorities were burning Bibles and destroying crosses at multiple churches across the country, and shutting down Zion, the largest Protestant church in Beijing. Then draft rules were introduced that would ban all foreigners from spreading religious materials online in China, and impose additional restrictions on religious preaching among Chinese as well. Then in December, the most famous Christian pastor in China was detained, along with his wife and about 100 members of his congregation, the Early Rain Covenant Church in Chengdu. Wáng Yí 王怡 and his wife are now reported to be charged with "inciting subversion," and face up to 15 years in prison. For Catholics, warning flags were raised in November when a Vatican-appointed bishop in Wenzhou, China, was detained by authorities for the fifth time in two years.

EVEN PEPPA PIG FALLS VICTIM TO CENSORSHIP

WITH THE ONE SURPRISING EXCEPTION OF SINA WEIBO'S on censoring gay content (see section 7), online censorship broadly increased in the People's Republic in 2018. Other kinds of censorship also increased. The targets included:

- **CORPORATE VPNS**, used to access the global internet, which had long been assumed safe because they are necessary for the function of international companies and embassies (though Lucy Hornby at the Financial Times argued that this was “about money as much as censorship,” as authorities sought to channel license fees to favored VPN companies).
- **PARODIES OF CLASSIC TV SHOWS AND FILMS**, which were banned by the state media regulator in March.
- **THE ANIMATED CHARACTER PEPPA PIG**, whose image went viral and became a symbol of gangster or slacker culture in a way that upset censors. Later, some reported that they could view Peppa videos again, so the ban may have been temporary.
- **THE NEWS THAT THERE WAS GOING TO BE UNCENSORED INTERNET IN HAINAN**, the southern island of China that has grand plans for a future free trade zone.
- **VARIETY SHOWS**, including a surprisingly good Chinese version of Saturday Night Live, which ceased showing after just three episodes.
- **Q DAILY 好奇心日报**, a Shanghai-based online publication, which was ordered to stop reporting on a range of subjects, including politics, the economy, the military, foreign policy, and other public affairs, in July.
- **MUSIC- AND ANIME-STREAMING SERVICES**, which were subjected to an investigation in August and forced to close down thousands of accounts.
- **COMMUNIST PARTY MEMBERS’ ONLINE SPEECH**, which was subjected to new disciplinary rules starting on October 1 that strictly punish things such as endorsement of bourgeois liberalization, defamation of national heroes and models, and slander of the Party and state leaders.
- **FOREIGN CONTENT IN TEXTBOOKS AND ON TV**, which saw crackdowns on content in September. Even international schools were affected this year by the regular reviews of textbook content that Chinese authorities undertake, and media regulators issued draft regulations that would limit screen time for foreign-made content to 30 percent (and none would be allowed during prime time).
- **NEARLY 10,000 ACCOUNTS ON WECHAT** and elsewhere, including even the official WeChat account of GuanCha.cn 观察者网, a pro-government news site associated with

Eric X. Li (李世默 Lǐ Shì mò), the silver-tongued venture capitalist who writes op-eds in American newspapers defending China’s leadership.

- **POLITICAL FICTION**, even novels that aren’t explicitly about politics but contain descriptions of the Chinese government or Chinese politicians, in November.

PEKING UNIVERSITY CRACKED DOWN ON STUDENT ACTIVISTS

SOME UNIVERSITY STUDENTS GOT A BIT TOO MARXIST FOR THE COMMUNIST PARTY,

and at least 12 student labor activists went missing by mid-November. It all started in August, when about 50 students from across the country went to Huizhou in southern China to join protests against the treatment of factory workers at Jasic Technology. The Peking University Student Marxist Society, whose still-missing member Yuè Xīn 岳昕 also played an important role in #MeToo activism this year (see section 7), was not allowed to register as an official club in September for its role in the protests. In November, Peking University went so far as to accuse its student Marxists of “criminal activity.”

Two other universities also cracked down hard on students for their roles in labor protests. Two students at Nanjing University were assaulted and hauled away after organizing an on-campus protest against their university’s refusal to register the Marxist society as a club. Students at Renmin University reported that they had been put on a “blacklist” that came with intense surveillance and harassment. For its treatment of student activists, Cornell University ended its partnership with Renmin University in late October.

Peking University, whose students led both the 1919 May Fourth movement and the 1989 Tiananmen Square protests, seems especially determined to keep its student activists at bay in 2019. On October 23, the Ministry of Education announced that Qiū Shuǐpíng 邱水平 was appointed as Party secretary of the university, a vice-minister-level position in the Party hierarchy. Qiu’s predecessor was demoted to president of the university: As with all organizations in China, the Party secretary is the person with the power. Qiu is the first Party secretary of PKU to have a background in the Ministry of State Security, a new

and troubling development.

CHINA'S DIPLOMACY OF OUTRAGE

CHINA PICKED MULTIPLE FIGHTS WITH SWEDEN, as China's diplomacy became more aggressive and less respectful of smaller nations.

- **FIRST, AUTHORITIES AGAIN DETAINED GUI MǐNHǎi 桂敏海**, Swedish citizen and seller of books that Xi Jinping doesn't like, on January 20. Gui Minhui had been "freed" in October 2017 after two years in Chinese custody, but was taken off a Beijing-bound train by a group of about 10 plainclothes men, even as he was accompanied by two Swedish diplomats. China's Ministry of Foreign Affairs spun a story that strained credibility about Gui's violation of laws, and also implied that Swedish diplomats had broken unspecified laws in accompanying their own citizen. A surreal, and almost certainly forced, interview with Gui and selected media — including the South China Morning Post — on February 9 further raised the stakes for Sweden. Gui has still not been released.
- **THEN IN SEPTEMBER**, the Chinese ambassador to Sweden, Guì Cóngyǒu 桂从友, and Chinese state media attacked Swedish authorities over an incident that, they said, showed police brutality against Chinese tourists. Judging from video and eyewitness records, that is not true, and Swedish authorities denied any wrongdoing. In part, Beijing seemed to be taking the incident as an opportunity to play tit for tat for the detention of Gui Minhui.
- **BUT A SEPARATE INCIDENT IN THE U.K.** indicates that a new type of diplomatic tactic is at play here. Kǒng Línlín 孔琳琳, a CCTV reporter in the U.K., loudly objected to a discussion of Hong Kong independence at the annual Conservative Party Conference on September 30, and slapped an event volunteer. She was arrested, but the Chinese Embassy and CGTN came to her defense — not surprisingly, because she was fulfilling her duty of Chinese propaganda workers to "draw their swords" to prove their zealotry and ideological purity. Kong was charged with assault in October, but the charges against her were dropped in November.
- **THESE INCIDENTS BOTH ILLUSTRATE THE CONCEPT** of "broken porcelain" (碰瓷

pèngcí), or manufacturing drama in order to obtain a desired outcome, wrote David Bandurski, a sharp observer of Chinese propaganda.

CALLING THE NEIGHBORS

CHINA SOUGHT WARMER RELATIONS with several of its important neighbors, in addition to Japan, as noted in the global backlash essay (see section 3). All of this outreach can be seen in the context of Beijing balancing against an increasingly unfriendly United States.



- **RUSSIA** may be the most strategically important one, as any move that brings Russia and China closer together is sure to raise hackles in Washington. Xi Jinping visited Russia in September, and made blinis and downed shots of vodka with Putin in celebration of a closer Russia-China relationship. China also sent over 3,000 troops to participate in Russia's largest military drills since the Soviet era.
- **INDIA** saw a surprisingly calmer relationship with China this year, after a border standoff last year in the Doklam area saw the two countries come closer to military conflict than in decades. Prime Minister Narendra Modi visited the city of Wuhan for an "informal summit" in April, where Xi Jinping told them that they should work together for the "revival of Eastern civilization." Modi seemed into it, and said, "I'll be happy, if in 2019 we can have such an informal summit in India." Later, even as border conflicts have not been decisively resolved, troops from both countries gathered in Chengdu in December for joint exercises and a "Hand-in-Hand" cultural exchange.
- **SOUTH KOREA** (in the neighborhood, like Japan, if not sharing a border) also saw slightly warmed ties with Beijing, as China worked with Seoul on its aggressive diplomacy on

North Korea early in the year, and by August, Chinese tour groups began again visiting South Korea. Tourism had been one of the hardest-hit industries in the unofficial boycott of 2016 and 2017, which Beijing had launched against South Korea in response to the installation of an American missile defense system.

OTHER NOTABLE POLITICS AND CURRENT AFFAIRS STORIES

- **CHINA DENIED REPORTS THAT IT WAS BUILDING MILITARY BASES** in Pakistan and Afghanistan. Both projects were reported in the first month or so of 2018, and the South China Morning Post further reported details of a Chinese training camp in Afghanistan's Wakhan Corridor in August. All reports were denied by the Chinese foreign ministry, as well as the Afghan Embassy and a Pakistani admiral.
- **JOINT VENTURE SCHOOLS** and Sino-foreign partnership programs at universities are under scrutiny from the Ministry of Education, which has now terminated a total of 234 partnerships between Chinese and overseas institutions.
- **TAIWAN LOST ANOTHER ALLY**, as El Salvador decided on August 20 to switch diplomatic recognition to the P.R.C. Taiwan said that El Salvador had asked for an "astronomical sum" of financial aid for a port project, which would have left both countries in debt, and this was the main cause of the breakdown in ties.
- **AMERICAN COMPANIES, PARTICULARLY AIRLINES**, came under pressure from China for listing Taiwan as a "country" in drop-down menus and similar offenses in Beijing's eyes. The White House called this "Orwellian nonsense," and pushed back on Beijing's censorship, but by late July, Delta Air Lines, United Airlines, and other companies joined dozens of others who accommodated Beijing's demands.
- **PEOPLE'S LIBERATION ARMY VETERANS** took to the streets in June to protest mistreatment, poor healthcare, and inadequate job prospects. Although PLA protests are nothing new, this round was notable for its improved national organization and the government's increasingly militarized response.



VII. TOP SOCIETY AND CULTURE STORIES OF THE YEAR

VACCINE SCANDAL

YET ANOTHER VACCINE SCANDAL PUNCTURED PUBLIC TRUST in the safety of domestically produced medicine. The trouble began on July 15, when the State Drug Administration (SDA), part of the newly formed State Administration of Market Regulations (SAMR), announced that it had found “fabricated records and other grave violations” at Changchun Changsheng, a vaccine maker in northeastern China’s Jilin Province, and public records showed that a batch of rabies vaccines from the company had been recalled. The trouble then exploded into scandal on July 19, when the Jilin Province Food and Drug Administration concluded from a nine-month investigation that Changchun Changsheng had sold

250,000 substandard DPT vaccines (diphtheria, pertussis, and tetanus; pertussis is more commonly known as whooping cough).

Officials rushed to reassure the public, from Xi Jinping — who condemned Changsheng’s violations as “serious and appalling,” and also urged severe punishment “to cure the chronic disease [of corruption] and scratch poison from one’s bones” — to top city and provincial officials — a dozen of whom said their jurisdictions either hadn’t bought Changsheng’s vaccines or would immediately halt distribution. As a result, Changsheng was hit with a fine of 3,442,887 yuan (\$507,843) for its data forgery and substandard vaccine production, and 15 people, including Changsheng’s CEO, were arrested on suspicion of criminal offenses. The company’s stock also en-

tered free fall, bottoming out at less than 20 percent of what it was before the scandal, where it remains today.

The fallout from this scandal became China's largest crisis of trust in the government's ability to protect public health in years, possibly since the 2008 melamine-laced milk powder scandal. Though no children were reported to fall ill from this particular batch of vaccines, and the faulty vaccines were recalled quickly, that was not the case in years past — at least four times since 2010, poorly made or improperly stored vaccines have been widely distributed in China, with two incidents resulting in multiple deaths. In 2016, after a pharmacist in Shandong Province was caught peddling 25 kinds of unrefrigerated vaccines to medical facilities across 23 provinces and cities, Premier Li Keqiang promised a thorough investigation and crackdown.

This time, the public had no patience for Li's predictable promise that another investigation could solve the issue. On WeChat, there were over 320 million mentions of the word vaccine on July 21, and a viral article excoriating Changchun Changsheng for its business practices was viewed over 100,000 times before it was censored. On Weibo, vaccine was among the most censored words for July 22 and 23. Middle-class and wealthy Chinese flocked to Hong Kong in huge numbers in order to obtain imported vaccines for their children. In addition, the State Drug Administration (SDA) didn't help its case to repair its shattered credibility when its deputy director, Xú Jǐnghé 徐景和, appeared on CCTV to give a stiff statement, without making eye contact with the camera, while committing the faux pas of wearing a luxury foreign brand Burberry polo shirt.

Many internet users drew comparisons between the 2008 milk powder scandal and the current atmosphere of distrust. Outrageously, it turns out that both scandals occurred under the watch of the same official at SDA: Sūn Xiánzé 孙咸泽. One of a dozen-plus officials held responsible for the 2008 incident, he had been in charge of drug safety at SDA until his retirement in March this year, well into the middle of the investigation of Changsheng. Protesters appeared in front of the National Health Commission on July 30, demanding legislation to guarantee the quality of Chinese vaccines and severe punishment for Changsheng, as well as punishment for government officials involved.

The authorities continued to clean up from this scandal for the rest of the year. In August, authorities revealed that a second batch of faulty DPT vaccines had also been produced by Changsheng, raising the total amount to nearly 500,000 substandard vaccines. A few days later, more than 40 officials were held responsible for the incident, including the vice-governor of Jilin Province and Wú Zhēn 吴滇, former deputy head of the former State Food and Drug Administration. In October, a further 9.1 billion yuan (\$1.3 billion) fine was applied to Changchun Changsheng, and in November, a law was proposed to give a 5 million yuan (\$720,000) penalty for offenses such as submitting false test results, not recalling faulty vaccine batches, and "other serious illegal acts."

#METOO MOMENTUM

THE #METOO MOVEMENT IN CHINA GAINED SIGNIFICANT VISIBILITY

and momentum this year despite growing suppression from the authorities. Thanks to a cohort of brave women who came forward with their stories of being subjected to sexual assault, a host of high-profile cases involving figures in education, media, tech, and beyond came to the public's attention:

- In April, a two-decades-old case returned to the public eye — Shěn Yáng 沈阳, a literature professor at Peking University (PKU) in the 1990s, was accused of raping and sexually harassing his student Gāo Yán 高岩, who friends said committed suicide as a victim of long-term sexual assault. In the days after the scandal broke, some PKU students called for the school to launch a new investigation into the incident and announce results with full transparency. But their advocacy was hindered by the school authorities, who wanted to keep the case under wraps. Student activist Yuè Xīn 岳昕, in particular, endured days of harassment and intimidation by the school officials.
- Xiánzǐ 弦子, a former intern at China Central Television (CCTV), came forward in July with sexual assault allegations against Zhū Jūn 朱军, a 54-year-old veteran television host working for the state-run TV network. Zhu later denied the allegations and hit back with a defamation case against Xianzi and her friend Mài shāo 卖烧, who had shared the alleged victim's story in a viral post on Weibo.
- In July, six women accused Zhāng Péng 张鹏,

an ecology professor at Sun Yat-sen University (SYSU) in Guangzhou, of sexual assault.

- In July, Léi Chuǎng 雷闯, founder of a major charity dedicated to eliminating discrimination against people with hepatitis B and a prominent activist against sexual violence targeting women, admitted to and apologized for sexually assaulting a woman after the scandal was posted online.
- Shì Xuéchéng 释学诚, the abbot of Beijing's Longquan Temple and one of China's highest-ranking monks, resigned as the president of the Buddhist Association of China amid accusations of sexual misconduct in early August.



Sexual harassment remains rife in China, but public awareness of it is growing rapidly. In January, Beihang University in Beijing removed professor Chén Xiǎowǔ 陈小武 from his teaching position after sexual harassment allegations from four women. The case inspired more than 50 instructors from over 30 Chinese colleges to sign an anti-sexual-harassment manifesto. In March, a prominent curator behind contemporary art exhibitions in China lost his post as head of the upcoming 2018 Shenzhen Biennale after allegations of sexual harassment. And in August, a male executive at Mobike, one of China's bike-sharing giants, was suspended after an anonymous female software engineer accused him of sexual harassment and abuse of power.

All these encouraging signs of awareness of sexual abuse and harassment, however, are not enough to guarantee a bright future for the #MeToo movement in China. In the last Red Paper, we wrote, "China saw no movement for equality comparable with the #MeToo movement in the U.S. and the West." And the comment still holds true in 2018, as Chinese activists advocating for women's rights are facing a host of obstacles to

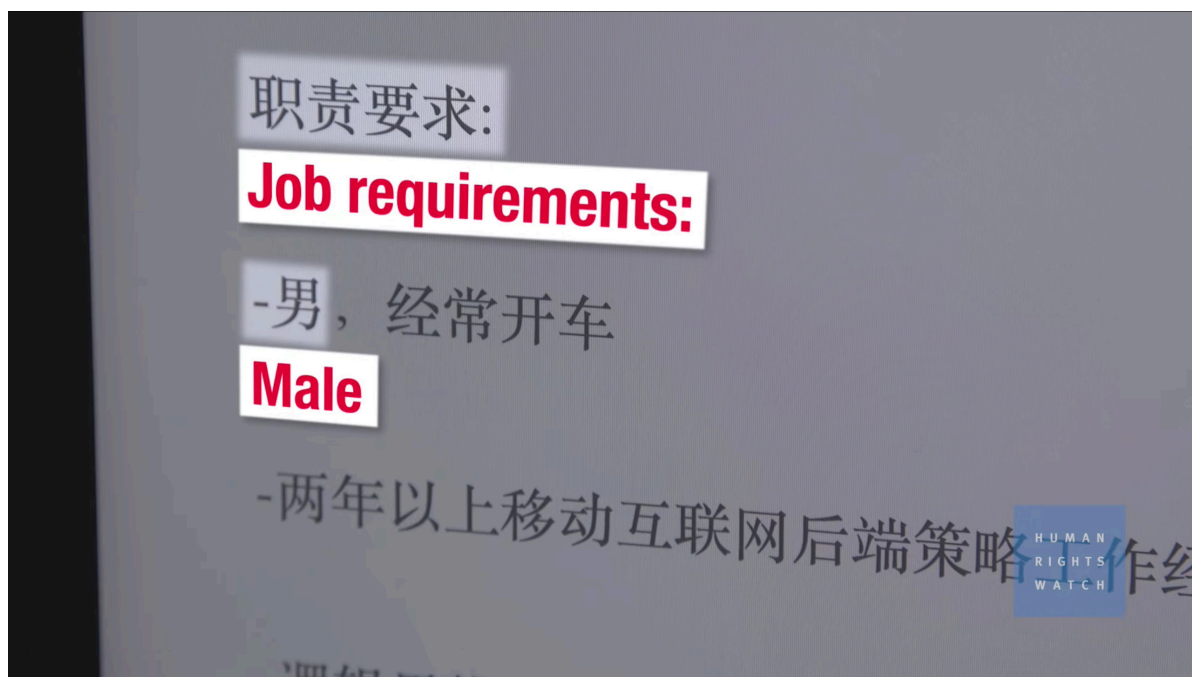


get their ideas across to the public.

One of the biggest hurdles for activists is the lack of support from the central government, which has been sending conflicted messages regarding its stance on #MeToo-related issues. On the one hand, there has been meaningful progress on the regulatory front, such as the Ministry of Education's publication of its first detailed protocol for handling abuse by teachers. At the beginning of this year, in response to the Beihang University case, the People's Daily encouraged more victims of sexual assault to speak up in a brief comment on Weibo, where it wrote, "We applaud Beihang

for not hiding evil or covering up the crimes. We have zero tolerance for teachers who violate professional ethics." On the other hand, online censorship targeting discussion about gender equality and women's empowerment intensified this year with the forcible closure of Feminist Voices (女权之声 nǚquán zhīshēng) and the Guangzhou Gender and Sexuality Education Center (GSEC), two leading nonprofit organizations in China dedicated to combating sexual violence and promoting equal rights for women. Meanwhile, the authorities have tightened their grip over pro-women protests and performance art to the point that Fudan University's annual performance of the feminist play *The Vagina Monologues* (阴道独白 yīndào dúbái) was canceled for the first time in its 14-year history.

And while the movement attracted a remarkable amount of traction on social media, especially in the circle of Chinese feminists, the reckoning has yet to fundamentally reshape social thinking on sexual assault and turn the tide on gender-based discrimination and sexism, which are deeply rooted in various aspects of life. A handful of statistics



and news items this year collectively provide a glimpse into the dire situation that Chinese women are facing:

- More than 75 percent of current and former female college students in China say they are victims of on-campus sexual harassment.
- Over 80 percent of female journalists in China say they were at one point subjected to sexual misconduct in the workplace.
- Nearly all of China's largest tech companies, including Alibaba, Tencent, Baidu, and Huawei, are perpetuating sexism and employment discrimination against women.
- College boys at colleges around the country decided to celebrate "Girls' Day" on March 7 by putting up sexist and creepy red banners.
- In the wake of Didi's sensational murder case, where a 21-year-old flight attendant was raped and killed by a driver, media outlets rushed to give women safety tips instead of urging the ride-hailing giant to improve safety, especially for female passengers.

GOVERNMENT CONCERNS OVER CHILDLESS CHINESE

CHINA'S FALLING BIRTH RATES BECAME A MAJOR CONCERN for the central government this year, but young people's retreat from child-rearing remains robust. The increasingly aggressive campaign to encourage citizens, especially young people, to have more babies started in 2016,

when China eased its decades-long one-child policy to avert a demographic crisis.

The relaxation on family planning was followed by a host of subsidies for marriages and limits on birth control, such as giving cash grants to newlyweds and implementing restrictions on abortion. There have reportedly been discussions inside the government about scrapping all limits on family size, and a lawyer publicly drafted a proposal calling for a three-child policy around the time of this year's "Two Sessions" (两会 liǎnghuì) in March.

But these policy initiatives failed to deliver the results that the government had expected. In 2017, 630,000 fewer babies were born in China than in the year before. Seeing disappointing outcomes, worried demographers and policymakers started to adopt more aggressive language, such as claiming that "having children is not only a family matter but also a national issue," as well as suggesting controversial country-wide solutions like establishing a "reproduction fund system," which would amount to a tax on all childless Chinese.

R.I.P. LOUIS CHA

LEGENDARY NOVELIST LOUIS CHA, better known by his pen name, Jīn Yōng 金庸, passed away at the age of 94 in Hong Kong on October 30. As one of the world's best-selling authors, Cha was the author of many Chinese martial arts epics, in-



cluding *Legends of the Condor Heroes* 射雕英雄传 and *The Deer and the Cauldron* 鹿鼎记. It is difficult to overstate the cultural influence of Cha's novels in the Chinese-language world — “roughly equal to that of ‘Harry Potter’ and ‘Star Wars’ combined,” one writer offered earlier this year.

PROGRESS FOR THE LGBT COMMUNITY

WHILE THE CHINESE GOVERNMENT'S STANCE on LGBT issues remains ambiguous, the young generation is becoming more involved in the movement advocating for equal rights for the LGBT community. Some social groups and activists saw progress in 2018, which they said could lay the groundwork for future progress on a number of issues such as eliminating employment discrimination against gay people and even achieving marriage equality.

The most notable victory for the Chinese LGBT community this year was Sina Weibo's U-turn on its gay content ban after a public outcry. Echoing the sentiments of most internet users, who accused China's biggest microblogging platform of being homophobic, the People's Daily published a surprising commentary that asked “everyone to respect other people's sexual orientations.”

In addition to online protests, there has also been growing support for LGBT rights advocacy on Chinese campuses. In celebration of this year's International Day Against Homophobia, Transphobia, and Biphobia (IDAHOTB), a high school in Beijing promoted LGBT awareness with a T-shirt campaign, and LGBT events sprung up at multiple campuses across the country.

But these promising signs didn't necessarily mean Chinese LGBT rights activists enjoyed more freedom and safety in their daily work. In May, two women at an LGBT event in Beijing's 798 Art District were beaten up by security guards.

A BRIEF HIP-HOP CRACKDOWN

CHINA'S FLEDGLING HIP-HOP CULTURE suffered several setbacks this year amid an official crackdown. The brief cleanup started when Wáng Hào 王昊, aka PG One — one of China's best-known rappers, who rose to fame in 2017 on the hit show *The Rap of China* — was forced to apologize in January for his lyrics, which were criticized by state media for glorifying drugs, sex, and the pursuit of wealth. In mid-January, China's top media regulator, the State Administration of Press, Publication, Radio, Film, and Television of the People's Republic of China (SAPPRFT), reportedly

wanted new regulations that would require all TV shows to stop inviting entertainers with tattoos or using any elements from hip-hop culture, subculture (non-mainstream culture), and demotivational culture (decadent culture). SAPPRFT said that that these aspects of culture were at odds with core values endorsed by the Party.

As a result of the clampdown, Chinese rapper GAI, whose real name is Zhōu Yán 周延, was removed from a reality singing competition show on Hunan TV in late January. In March, performers at the Strawberry Music Festival in Hangzhou were seen covering their tattoos with stickers, head scarves, and bandages. PG One made a low-key comeback on Weibo in April by posting a confessional article in which he vowed to reset his career with “positive energy.” The post was soon censored by Weibo authorities for unclear reasons.



However, by the comeback of Season 2 of The Rap of China 中国有嘻哈 in the summer of 2018, the country’s rap scene appeared to have fallen off the government’s radar.

RACIST CCTV GALA SKIT

A SKIT IN THE 2018 CHINESE SPRING FESTIVAL (New Year) gala featuring a Chinese actress who dressed up as an African woman with exaggerated buttocks and a face painted black provoked widespread accusations of racism on the Chinese internet. The offensive performance was seen as an example of China’s deep-seated racial insensitivity in its portrayal of people of color. It also ignited heated discussions in the black and African community in China about the country’s “complete lack of awareness around racism” and how the group can be more active in producing a

counternarrative, as noted by Black Lives China, a website dedicated to “capturing the full breadth of the black experience in, around, and in relation to China.”

FROST BOY

DUBBED “FROST BOY” BY SOCIAL MEDIA USERS, Wáng Fúmǎn 王福满, an eight-year-old student from Yunnan Province, became an online sensation in January after a teacher at his school shared a photo showing his hair completely covered in frost, the result of walking about 4.5 kilometers (2.7 miles) from his home to school in freezing weather. Following reports that Wang is a typical “left-behind” child whose parents are away as migrant workers and that there are hundreds of students like Wang in his town, donations poured in from individuals and foundations to provide warm clothing and heating units for the boy and other kids in need.



DOG DEBATE

DISPUTES BETWEEN ANIMAL LOVERS AND DOG HATERS intensified rapidly this year due to multiple stories of violent, even deadly, incidents involving dog owners, such as a man in Ningbo who killed three neighbors over their barking dog

and a couple in Hangzhou who physically assaulted a woman because of an argument over an unleashed dog.

Some cities implemented strict policies on pet ownership with the hope of maintaining harmony between the two extreme camps. For example, Chengdu has banned 22 common dog breeds, including the German shepherd and the common Chinese rural dog. Hangzhou went so far as to embark on a gruesome killing spree of stray dogs, which sparked a massive fit of fury on the internet, and a hashtag campaign on Weibo in protest that gained a lot of traction.



DOLCE & GABBANA CONTROVERSY

ITALIAN FASHION HOUSE DOLCE & GABBANA found itself under fire after the cancellation of a Shanghai show following controversy in November about a racist video ad campaign — which featured a Chinese model who uses chopsticks to eat Italian food — and leaked, offensive text messages from cofounder Stefano Gabbana, who called China “Ignorant Dirty Smelling Mafia.” This is the second time a D&G ad campaign has ended in controversy: Last year, a marketing campaign featuring images of China that many people felt made the country look backward sparked anger on the Chinese internet.

While Domenico Dolce and Stefano Gabbana, the two co-founders of the brand, later apologized in a groveling video, D&G was mocked by internet users and does not seem to be forgiven. As a result, Hong Kong retail chain Lane Crawford announced that it had dropped all D&G products, and most major Chinese ecommerce sites removed D&G products from their platforms.

OTHER NOTABLE SOCIETY AND CULTURE STORIES

- **DYING TO SURVIVE** (我不是药神 *wǒ bùshì yào shén*), a critically acclaimed comedy about illegally importing drugs, became one of China’s biggest hits this summer. Telling a tale about a health supplements peddler smuggling unapproved drugs from India to sell to leukemia patients for more-affordable prices, the movie reflects some real-life stories in China and has drawn comparisons with the Oscar-winning *Dallas Buyers Club*.
- **AN ALARMING INCREASE IN HIV** diagnoses over the past year was reported by the Chinese Center for Disease Control and Prevention. While experts explained that the surge in the number of HIV-infected people is mostly because of a sample size expansion, the center warned that it could be a harbinger of worse times ahead, since about 30 percent of people infected with the virus in China are still spreading it without acknowledging their HIV status.
- **THE BAN ON RHINO HORNS** and tiger parts trade was temporarily reinstated after the lifting of the ban at the end of October sparked an uproar among conservation groups.



- **DIGITAL DETOX CAMPS** in China, which infamously rely on abusive treatments, such as electroshock therapy, to “cure” their “patients,” are likely to benefit from the decision by the World Health Organization (WHO) to recognize gaming addiction as a mental health issue.
- **FIVE SIBLINGS** were punished for neglecting their filial responsibility to take care of their sick father after his death, with each of them receiving up to two years of jail time. As

China's population ages, it seems certain that the Chinese government will seek to place at least some of the burden of senior care on families rather than on state organizations.

- **A MAN WHO MOLESTED** his own daughter on a train in late October in Jiangxi Province was let go by the police without punishment, enraging the Chinese internet.
- **KUAISHOU**, one of the biggest short-video platforms in China, apologized after state media criticized it for failing to censor content featuring teenage mothers showing off their pregnant bellies and babies. In April, China Central Television (CCTV) said that several video services, including Kuaishou and Huoshan, encouraged teenage girls to show off their adolescent pregnancies and compete with one another to be crowned as the "youngest mother on the internet."
- **DESPITE GROWING SKEPTICISM** about the efficacy of traditional Chinese medicine

(TCM) and various "nutritional" supplements such as caterpillar fungus, aka Himalayan Viagra (冬虫夏草 *dōngchóngxiàcǎo*), and birds' nests (燕窝 *yànwō*), Shandong Province implemented rules that require that at least 60 percent of prescriptions at TCM hospitals and 40 percent at integrative (combined regular/TCM) hospitals must be for TCM treatments. Voices against the government's aggressive push to promote the TCM industry were largely censored. In February, National Health 12320, the official Weibo account of China's medical hotline operated by the country's National Health and Family Planning Commission, apologized after it made a since-deleted post to dispel the myths surrounding donkey-hide gelatin (阿胶 *ējiāo*).

- **PAYING RENT IS A "LARGE FINANCIAL BURDEN"** on 82.1 percent of 18- to 35-year-olds in China, according to a survey by China Youth Daily.



VIII. SUPCHINA COLUMNS: YEAR IN REVIEW

In addition to cultural columns like Friday Film and Friday Song, as well as weekly commentary from Kaiser Kuo in Kuora, SupChina regularly published two news-focused columns in 2018 — and its third, the China Business Corner, was launched just as this Red Paper was published. Here are the highlights of the China Sports Column, launched in January and written by Mark Dreyer, and Chinese Corner, launched in June and written by SupChina’s own Jiayun Feng.

CHINA SPORTS COLUMN: A FEELING OF FUTILITY IN MEN’S SOCCER, AND WARMING UP FOR THE 2022 WINTER OLYMPICS

At the start of the year, soccer star Carlos Tevez was sent packing back to Argentina, from where he dismissed his highly paid seven-month stint in the Chinese Super League as a “holiday.” More than anything else, it was Tevez’s obscene wage packet that convinced authorities to crack down on spending, though clubs continued to get creative in their bids to avoid paying additional transfer taxes. The soccer year ended as it began — in futility — as military-style training camps were instituted for national team prospects, amid talk of an overzealous salary cap for the league. At least the women proved an exception, as PSG’s Wáng Shuāng 王霜 was voted Asian Women’s Footballer of the Year.

In golf, Lǐ Hàotóng 李昊桐 emerged as a future star — beating Rory McIlroy down the stretch for

a big win in Dubai — while in tennis, Wáng Qiáng 王蔷 became the first player since Lǐ Nà 李娜 to finish the year inside the top 20. Further afield, Chinese owners retreated from European soccer clubs, with Fosun's Wolves — now in England's top division — a notable exception. China returned to the top of Asian basketball, with CBA head Yáo Míng 姚明 winning plaudits, as the country dominated at the Asian Games, though China's earlier performance at the Winter Olympics in Pyeongchang shows just how much work still needs to be done in winter sports before 2022.

In 2019, the AFC Asian Cup in January in the UAE will give Chinese soccer an early chance to redeem itself — though it will also see World Cup-winning coach Marcello Lippi's reign as national team boss come to an end. But what China really needs in 2019 is for one or more big stars to emerge as true successors to the generation of Li Na, Yao Ming, and Liú Xiáng 刘翔. State media tried to anoint sprinter Sū Bǐngtiān 苏炳添 last year, but he wasn't quite good enough; snooker player Dīng Jùnhuī 丁俊晖 will try — for the 16th straight year — to win a maiden World Championship crown; and with Zhōu Qí 周琦 now cut by the Rockets, from where will China's next NBA prospect emerge? Government interference continues to loom large across all sports. Meanwhile, Beijing's second Olympics is fast approaching. Lots of questions, and no sign of any answers yet...stay tuned!

CHINESE CORNER: WHAT CHINESE SOCIAL MEDIA BUZZED ABOUT THIS YEAR

This year, SupChina launched a new weekly column called "Chinese Corner," where we introduce and review interesting nonfiction writing as it gains traction on the Chinese internet. A little more than six months into its existence, we've built a solid collection of impressive investigative pieces, thought-provoking commentaries, and emotion-filled personal essays that chronicle some of the biggest events in 2018 and illuminate how the public reacted to them.

In the spirit of celebrating a good half-year for Chinese nonfiction writing, we selected our favorite articles from the past six months and broke them down into various categories. Just taking a look through the topics covered provides a good

sense of what at least relatively educated, middle-class Chinese people read and discussed in 2018 (sometimes quite different from what overseas media focus on). If you read Chinese yourself, we think these are among the most interesting essays from the past year that you can digest to understand what is on the Chinese public's mind going into 2019.



BEST PROFILE WRITING:

- [THE "CHINESE MEDICINE GOD" WHO IS IN DOUBT 令人生疑的“中国药神”](#)
Diagnosed with leukemia, Lù Yǒng 陆勇 ditched his job, bankrupted himself, and became a drug smuggler. This summer, his legendary tale was told in the hit movie *Dying to Survive* (我不是药神 wǒ bùshì yào shén). But his real-life story is way more complicated than what's shown on the big screen.
靳锦 | GQ报道 | July 5, 2018
- [ZHANG HAICHAO: ENSLAVED BY A LUNG “肺奴”张海超](#)
张海超 lost a lung from his construction job. But he was lucky enough to get a new one.
王瑞锋 | 新京报 | July 24, 2018
- [THE EVOLUTION OF YANG CHAOYUE: THIS IS NOT MY WORLD 杨超越变形记:这不是我的世界](#)
In a new age of entertainment, awfulness can be the key to success.
洪蔚琳 | GQ报道 | June 24, 2018
- [HU BO: THE ABSENT ONE 胡波:缺席的人](#)
Inside the sad life of Hú Bō 胡波, a gifted filmmaker who died tragically young.
陈楚汉 莫南 | 谷雨实验室 | November 17, 2018
- [THE DEATH OF 'BROTHER LONG' AND THE UNDERWORLD IN KUNSHAN HE ONCE RULED “被反杀者”刘海龙的昆山江湖](#)

A local gangster got fatally slashed by a random cyclist over a minor dispute. His death became a curious case for Chinese internet users.

王一然 | 后窗工作室 | **September 2, 2018**

BEST TECHNOLOGY AND BUSINESS WRITING:

- [PEOPLE INSIDE THE OFO DRAMA: WE REFUSE TO MAKE FINAL CURTAIN CALL](#)
[OFO剧中人:我不愿谢幕](#)

In the final days of ofo, which was once the world's biggest bike-sharing company, some people left but others chose to stay.

张琚 | 财经 | **December 5, 2018**

- [PINDUODUO'S LISTING SETS BACK THE CLOCK 20 YEARS 拼夕夕的上市让历史倒退](#)
[了二十年](#)

"The most annoying thing in the world is that when you want to have a conversation about infringement, he talks about sentimentalism. When you want to have a conversation about laws, he talks about phases of development."

大卫翁 | 起朱楼宴宾客 | **July 29, 2018**

- [THE UNCOOL PEOPLE BEHIND WAY-COOL AI 那些给人工智能打工的人](#)

At the heart of AI are machine-learning models built on pure human labor. These workers perform one of the most tedious jobs on the planet — manually adding labels to objects in digital images, such as "desk," "human being," and "red high-heeled shoes."

刘敏 | GQ报道 | **October 12, 2018**

- [P2P NIGHTMARE: HOW I LOST ALL MY SAVINGS OVERNIGHT P2P爆雷后,我的存款一夜清零](#)

A depressing portrayal of middle-class and working-class Chinese Dreamers under the direct influence of the P2P meltdown.

看客inSight | **August 24, 2018**

- [CONSUMPTION, DESIRE, AND DREAM OF 800 MILLION PEOPLE LIVING IN RURAL CHINA 8亿县城人的消费、欲望与梦想](#)

As the self-proclaimed middle class in China is struggling to find affordable housing and experiencing an identity crisis, the future of China's economy has become dependent on the working class in the countryside.

董金鹏 | 新经济100人 | **November 19, 2018**

BEST CULTURE WRITING:

- [HOW DID THE POPULATION TRAIN RUN OFF THE RAILS? 人口列车是怎样失控的](#)

While the current conversation is largely centered on who should be responsible for saving China from a crippling demographic crisis, it is vital to acknowledge that the problem is the result of years of policies to discourage childbirth, including financial penalties on people who violated birth regulations, state-enforced contraception, and even forced abortions enacted by millions of family planners.

刘喜 | 大象公会 | **September 14, 2018**

- [DO THE ENGLISH PATIENT AND THE PIANO REPRESENT 'INCORRECT WORLD-VIEWS'? THE MORAL LANDSCAPE AND REAL-LIFE ANXIETY IN DOUBAN'S MOVIE REVIEWS《英国病人》《钢琴课》“毁三观”？豆瓣短评里的道德景观与现实焦虑](#)

The emergence of applying ethical judgments on works of fictional art reflects a new form of "political correctness" in China, where families hold the fabric of society together, passionate love is oppressed, and women are deprived of sexual desires.

张之琪 | 界面文化 | **July 17, 2018**

- [WANG JU'S SUDDEN ASCENT TO STARDOM WITHIN 24 HOURS 王菊逆袭前后的24小时](#)

Produce 101 创造101 is a Chinese reality show that normally features young, "cute," conventionally beautiful girls, but Wáng Jú 王菊 — full-figured, tanned, and audacious — fostered a legion of devoted fans and became a "gay icon" in a short amount of time, exploding into a cultural phenomenon that shows no signs of slowing down.

吞Labs | **May 30, 2018**

- [CRAZY HUANGZHUANG STANDS AT THE CROSSROADS OF EARLY EDUCATION 疯狂的黄庄:超前教育“十字路口”](#)

Replete with top schools and a significant number of institutions that provide private educational services, Huangzhuang in Beijing stands at the center of China's massive and highly profitable education industry, where academically overbearing parents are willing to sacrifice everything for their children's success.

童小伙 | 虎嗅APP | **November 18, 2018**

- [HAS TIKTOK BECOME INDISPENSABLE FOR CHINESE SONGS GOING VIRAL? 现在的华语新歌不靠抖音就火不了吗?](#)

An in-depth analysis of the Chinese music industry in 2018 reveals how the dominance of TikTok affected Chinese musicians.

贾小凡 | Vista看天下 | **November 24, 2018**

BEST STORIES ABOUT WOMEN:

- [WHAT HAPPENED AFTER I REPORTED SEXUAL HARASSMENT 举报性骚扰之后](#)
“I want to prove that I am a human being and I’m entitled to speak out. I’m not just a name on a police file. What really matters is not what I say, but the fact that I have the opportunity to talk about my experience.”
杨宙 | 人物 | **August 22, 2018**
 - [THE LAST 653 DAYS OF THE GANSU GIRL WHO JUMPED TO HER DEATH 甘肃跳楼女孩的最后653天](#)
After a teacher sexually harassed her and authorities failed her, 19-year-old Lǐ Yìyì 李奕奕 said, “Hypocrisy is grotesque.”
荆欣雨 | 人物 | **June 28, 2018**
 - [168 HOURS AT A ‘VIRTUE SCHOOL’ FOR WOMEN 在卷土重来的女德班,我卧底了168小时](#)
One journalist took a seven-day course at a “feminine virtues” school. Rather than condemn the school and her classmates, she made a genuine attempt to understand the struggles of her classmates with profound
- empathy.
崔四爷 赵普通 | 真实故事计划 | **May 28, 2018**
- [WOMEN ENGINEERS: THEY BREAK INTO A MALE-DOMINATED TERRITORY AS “OUTSIDERS” WHO ONLY MAKE UP LESS THAN 8 PERCENT OF THE WORKFORCE IN THE INDUSTRY 女程序员:闯入男性领地,她们是行业里不足8%的“外来者”](#)
It’s convenient to assume that the easiest way to solve the gender gap in Chinese tech companies is to hire more women. But in reality, there are many other factors, including the resilient “brogrammer” culture, and subtler forms of discrimination that have been deterring women from learning to code in the first place.
雪竹 | 果壳 | **November 25, 2018**
 - [THE HISTORY OF DEMONIZING FEMALE DRIVERS 女司机的妖魔化之路](#)
Will Chinese news outlets ever reflect on their chauvinist rhetoric when reporting on car accidents involving female drivers? Can we get some bad stories about male drivers, too?
侯虹斌 | **October 29, 2018**

