U.S.-China Economic and Security Review Commission

Economics and Trade Bulletin

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Highlights of This Month's Edition

- **Bilateral trade:** U.S. goods deficit with China slowed in November 2015 as imports from China declined.
- **Bilateral policy issues:** USTR challenges China's discriminatory taxation policy for domestically produced small aircraft; the PBOC creates a multicurrency index for the RMB in a bid to deemphasize links to the dollar.
- **Policy trends in China's economy:** Beijing announces a slate of new reforms to improve quality of life, including changes to the household registration system; China a party to the Paris climate change agreement, but questions remain about reliability of China's pledges.
- **Sector focus – Internet Privacy and Freedom of the Press:** China passes antiterrorism law requiring decryption and other technological assistance from telecommunications and Internet services providers; Xi Jinping defends "Internet sovereignty" at Beijing-sponsored World Internet Conference despite China's status as worst abuser of Internet freedom and jailer of journalists in 2015.

Bilateral Goods Trade

U.S. Import Drop Slows Deficit Growth

The monthly U.S. trade deficit in goods with China totaled $31.3 billion in November 2015, a 5.2 percent drop from October. Month-on-month, imports from China decreased 5.4 percent, the sharpest monthly decline in imports since April, while U.S. exports to China dropped 6.2 percent (see Table 1).

November's monthly deficit—the smallest this year since May—still grew 4.4 percent year-on-year, driven by a 12 percent decline in U.S. exports compared to November 2014. The cumulative deficit through November 2015 reached $337.8 billion, an increase of 7.5 percent over the same period last year.

Table 1: U.S. Goods Trade with China, January – November 2015

(US$ billions)

	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov
Exports	9.6	8.7	9.9	9.3	8.8	9.7	9.5	9.2	9.4	11.4	10.7
Imports	38.2	31.2	41.1	35.8	39.2	41.1	41.1	44.1	45.7	44.4	41.9
Balance	(28.6)	(22.5)	(31.2)	(26.5)	(30.5)	(31.5)	(31.6)	(34.9)	(36.3)	(33.0)	(31.3)
Balance YTD											
2014	(27.8)	(48.7)	(69.1)	(96.4)	(125.2)	(155.2)	(186.1)	(216.3)	(251.8)	(284.4)	(314.3)
2015	(28.6)	(51.1)	(82.4)	(108.9)	(139.3)	(170.8)	(202.3)	(237.3)	(273.6)	(306.5)	(337.8)

Source: U.S. Census Bureau, NAICS database (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, January 2016). *http://www.census.gov/foreign-trade/balance/c5700.html.*

Bilateral Policy Issues

United States Challenges China's Discriminatory Taxation for Small Aircraft at World Trade Organization

The Office of the U.S. Trade Representative (USTR) initiated dispute settlement proceedings at the World Trade Organization (WTO) over China's discriminatory tax exemptions for domestically produced small aircraft. These policies imposed a 17 percent value-added tax on imported aircraft while exempting domestically produced aircraft, particularly aircraft under 25 metric tons by weight, in violation of the WTO's nondiscriminatory taxation rules.[1] Examples of exempted aircraft include China's domestically produced regional jet, the ARJ21, and general aviation aircraft ranging from propeller-driven aircraft to business jets.[2] The USTR noted these policies were not reported to the WTO as required.[3] The request for consultations is a first step in the dispute settlement process.[*]

The USTR noted that unfair taxation policies disadvantage the U.S. general aviation manufacturing industry, which provides approximately 103,000 jobs and contributes $14 billion annually to the U.S. economy.[4] According to U.S. Trade Representative Michael Froman, "China's discriminatory, unfair tax policy is harmful to American workers and American businesses of all sizes in the critical aviation industry, from parts suppliers to manufacturers of small and medium-sized aircraft."[5] Since 2011, U.S. exports of civilian aircraft, engines, equipment, and parts to China more than doubled, reaching $13.9 billion in 2014.[6] This number is expected to grow. Based on Chinese regulators' estimates, China's general aviation sector[†] is expected to grow 19 percent annually through 2020, creating enormous potential opportunities for U.S. firms.[7]

The United States has a history of winning challenges to China's unfair trade and regulatory policies at the WTO.[‡] For example, in 2015 the WTO ruled in favor of the United States in two separate cases for the improper imposition of antidumping and countervailing duties on steel by China's Ministry of Commerce.[8] However, the Chinese government is not always in compliance with adverse WTO rulings: Despite a favorable 2012 WTO ruling against China's market restrictions on foreign electronic payment processors, the People's Bank of China (PBOC) instituted a China-specific technical standard in June 2015 that further delayed entry for foreign payment processors such as Visa and MasterCard.[9] In July 2015, the U.S. government once again raised China's market access restrictions for foreign payment processors to the WTO.[10]

China Promotes New Multicurrency Renminbi Index

As part of a bid to deemphasize the link between the renminbi (RMB) and the dollar, this December the PBOC promoted a new index for the RMB that would measure its value against several international currencies rather than just the U.S. currency. In an editorial accompanying the announcement, the PBOC noted that as China has multiple trading partners, "the bilateral RMB-USD exchange rate is not considered a good indicator of the international parity of tradable goods" and that a multicurrency index would "better capture the competitiveness of a country's goods and services and enable the exchange rate to adjust import, export [and] investment activities."[11]

While several media sources saw the announcement as a signal that China may loosen the RMB's ties to the dollar, neither the editorial nor the announcement of the index stated the PBOC would formally peg the value of the RMB to the new index or intervene to keep the RMB in line with changes in the values of the basket currencies.[12] In fact, three days after the index was announced, the PBOC released a second statement clarifying it had not stated it would "mechanically" adjust the value of the RMB based on a currency index.[13]

Nevertheless, the PBOC's editorial prompted many analysts to consider the benefit to China of managing the RMB against a basket of currencies. While China has announced in the past it would peg the value of the RMB against

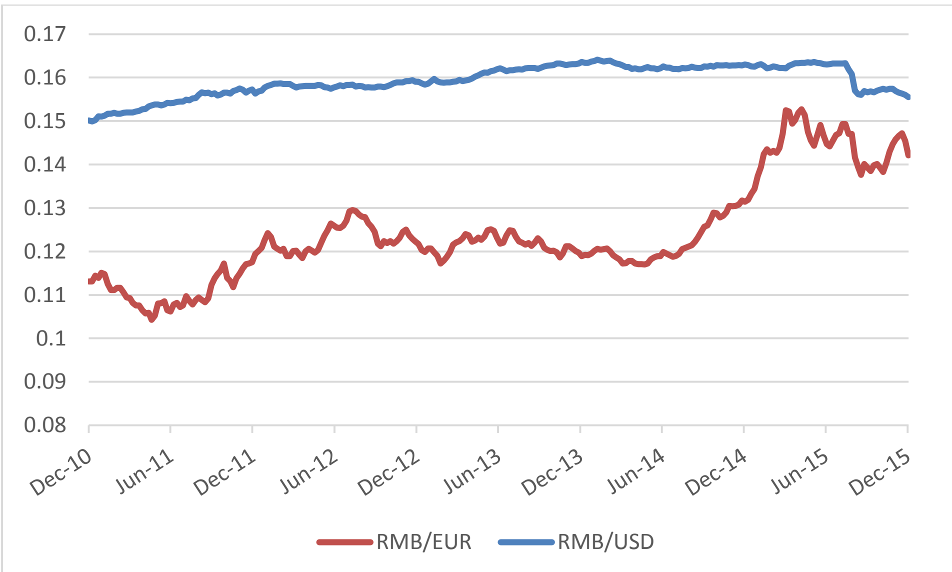
[*] For the official consultation request letter, see USTR, December 8, 2015. *https://ustr.gov/sites/default/files/US-Consults-Request-12082015.pdf*.

[†] For an in-depth report on China's civil aviation industry, see Roger Cliff, Chad J.R. Ohlandt, and David Yang, "Ready for Take-off: China's Advancing Aerospace Industry," *RAND*, 2011. *http://origin.www.uscc.gov/sites/default/files/Research/RAND_Aerospace_Report%5B1%5D.pdf*.

[‡] For the complete list, see WTO, "Disputes by Country/Territory." *http://bit.ly/1msc78w*.

several currencies, the RMB has effectively tracked the value of the U.S. dollar for the past several years.[14] As Figure 1 indicates, the RMB has shown relatively little volatility against the dollar compared to the euro over the past five years. This link to the dollar and China's attempt to support the value of its currency has recently decreased China's foreign reserves. Since the greater flexibility afforded to the RMB in August 2015 and the accompanying surprise devaluation,* the PBOC's foreign reserves have decreased by an average of $34 billion per month as the PBOC attempted to prop up the value of the RMB against the dollar (Figure 2). As of December, the PBOC's reserves had declined by $405 billion over the course of 2015.[15] Targeting a basket of currencies would alleviate pressure on the PBOC to expend reserves to prop up the RMB against a strengthening dollar. Given the recent rise in U.S. interest rates, the dollar is expected to appreciate against the RMB, although currency markets may have already taken this rate hike into account.[16]

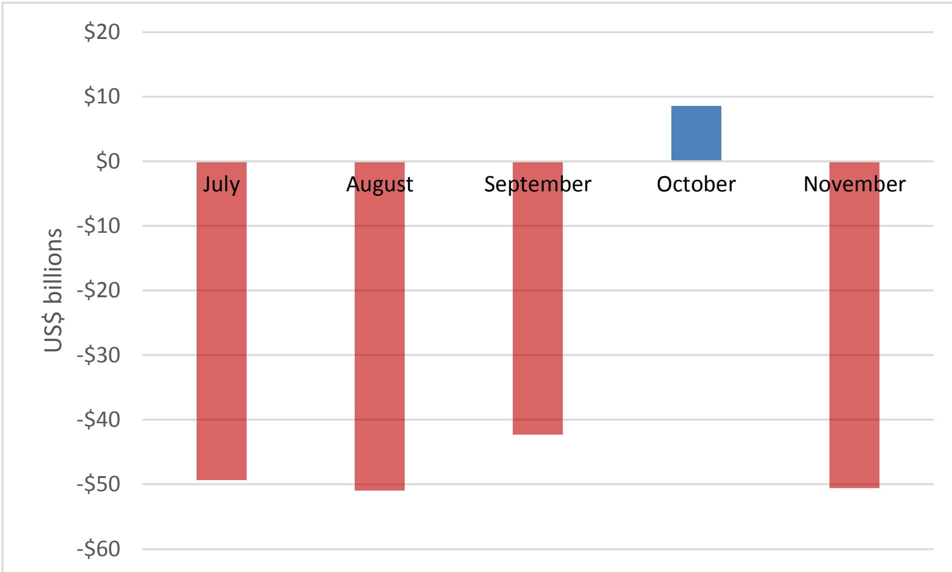
Figure 1: RMB Exchange Rates against the Euro and Dollar, 2010–2015



Source: Oanda, "Historical Exchange Rates." *http://www.oanda.com/currency/historical-rates/*.

* For explanation of the new RMB trading mechanism and the August 2015 devaluation, see U.S.-China Economic and Security Review Commission, *2015 Annual Report to Congress*, November 2015, 50–52. *http://1.usa.gov/1PIucJk*.

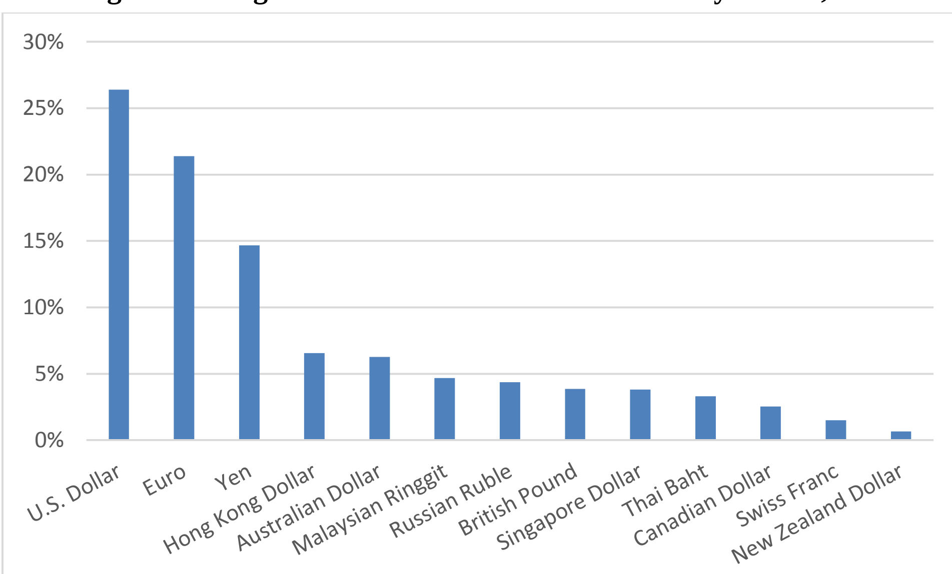
Figure 2: Monthly Change in PCOB Foreign Exchange Reserves, 2015



Source: People's Bank of China via CEIC database.

As Figure 3 shows, the new index is most heavily weighted toward the dollar, followed by the euro and the yen. These three currencies account for roughly 63 percent of the index, indicating that swings in these currencies would have the most impact on Chinese foreign exchange intervention if the PBOC chooses to target this index. The PBOC also released indexes for the RMB based on the Bank of International Settlement and International Monetary Fund (IMF) Special Drawing Rights currency baskets. The degree to which this index will guide China's management of its currency will be seen over the course of 2016.

Figure 3: Weight of Foreign Currencies in New RMB Currency Basket, November 2015



Source: China Foreign Exchange Trade System, "CEFTS RMB Index by the End of November 2015." *http://www.chinamoney.com.cn/fe/Info/15851379.*

Tracking the RMB against several currencies would boost Chinese exports, as the RMB would likely depreciate against the U.S. dollar, making Chinese goods relatively cheaper.[17] Some analysts have suggested a significant decrease in the value of the RMB could set off regional competitive depreciations by other countries in Asia as they seek to boost their own exports through weaker currencies.[18] China's slowing growth has already put downward pressure on the currencies of its regional trading partners, and a wave of devaluation would increase volatility in the region and increase the financial burden of those countries that have borrowed in U.S. dollars.

Policy Trends in China's Economy

China Announces Housing and Social Reforms

The Central Leading Group on Comprehensively Deepening Reform, led by Chinese President Xi Jinping, has signed off on a plan to reduce regulations on household registration and expand coverage for social programs.[19] The plan, announced on December 12, 2015, details changes to China's household registration, health insurance, and education systems, including giving official status to an estimated 13 million undocumented Chinese people under the national household registration—or *hukou*—system.[20]

Established in 1958 to control population flows from rural to urban areas, the hukou system prevents some Chinese people from being nationally registered citizens. The problem is particularly acute for those born out of wedlock, the homeless, or second children born under the "one-child" policy. While there was never an official hukou restriction tied to the one-child policy, local officials required parents to pay a fee for having a second child as a component of enforcing reproduction restrictions.[21] Rather than be harassed or imprisoned by officials, parents unable to pay the fee opted not to register their second children.[22] As a result, the population of unregistered citizens spiked: China's 2010 census revealed an estimated 13 million people lacked a hukou.[23] Because undocumented citizens lack access to basic public services, including schooling, health care, and housing, the parents and siblings of children without hukous are often forced to rely on unofficial or illegal means for support.[24,*] With the end of the one-child policy,[†] concerns about the effect of millions of unregistered citizens on social stability have become even more pronounced.[25] The December 2015 announcement pledged to provide all 13 million undocumented citizens with hukou registration and to protect "every citizen's right to [a] hukou … in accordance with the law," leading to access to basic government housing, education, and employment programs.[26]

According to the official announcement, China will also reduce stringent regulations on urban residency, allowing its 250 million migrants—who are denied full access to social welfare—to apply for hukous in Chinese cities with a population of no more than 500,000 people.[27] While urban hukou holders are entitled to nine years of compulsory education for children, employment services, and basic healthcare, rural migrants living and working in cities are forced to travel back to their rural hometown to receive limited health and education benefits. Under China's previous household registration system, migrants could only gain permanent residency if they were considered urgently needed by their employer.[28]

New draft regulations also seek to create a program for acquiring hukous in cities with more than 5 million people.[29] Beijing, for example, has proposed a point system that will score applicants based on employment, educational background, tax payments, and other information. After reaching a specified amount of points, migrants can transform their temporary household and work registration status into local residence, gaining access to the same public benefits as urban hukou holders.[30] There will still be strict application requirements for residency in overcrowded cities under the new regulations, however. To apply for housing in Beijing, the most competitive city to register for housing in China, applicants must be under 45 years of age, have a Beijing temporary residence permit, and have paid social security premiums in Beijing for at least seven consecutive years.[31]

In most other cities where competition for housing is less fierce, applicants will be required to live and work in the city for just six months before being eligible to apply for residency permits.[32] While the residency permit system addresses some of the problems inherent in the hukou regime, residency permit holders will have gaps in their education and social benefits compared to those with urban hukous. For example, migrants granted residency permits cannot obtain permanent residence for their parents, and are ineligible for welfare and government-

[*] To support unregistered children, many parents take out loans from loan sharks, enroll their children in illegal private schools, and sell off assets to raise cash. Stephanie Gordon, "China's Hidden Children," *Diplomat* (Tokyo), March 12, 2015. *http://thediplomat.com/2015/03/chinas-hidden-children/*.

[†] For more on the decision to end the one-child policy, see U.S.-China Economic and Security Review Commission, *Monthly Analysis of U.S.-China Trade Data*, November 4, 2015. *http://www.uscc.gov/trade-bulletin/november-2015-trade-bulletin*.

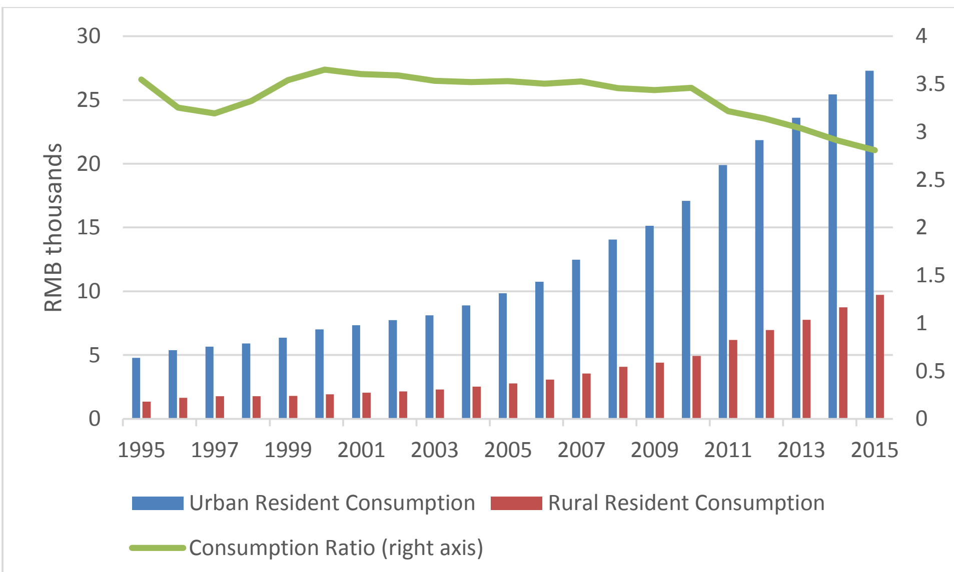
subsidized low-cost housing.[33] In order to participate in the national college entrance exam, children of migrant parents must go back to the towns in which their families are registered.[34] Moreover, the regulations do not specify whether migrants who receive urban residence can buy houses in large cities, where restrictions are placed on non-native buyers to curb rocketing house prices.[35]

While some Chinese cities already use residency permit systems, the programs have failed to improve migrants' standard of living, raising doubts about the impact of the new nationwide policy. A point system for residency permits was implemented in Beijing in 2003, but failed because of housing and schooling discrimination against migrants.[36] After a similar system was implemented in Shanghai in 2013, only one million people—less than one-tenth of those eligible—applied for the permit in the first 18 months.[37] The low application rate was attributed to regulations requiring an apartment lease and personal tax records, documents that are difficult for migrant workers to obtain.[38,*] These concerns, along with fears the policy will be loosely enforced by local officials, have left many Chinese families doubtful the reforms will lead to any significant changes.[39]

If properly implemented, however, the changes to the household registration system would not only significantly improve social equality in China, but also increase domestic consumption. By unleashing migrant workers' spending power, the country could boost its lagging property market, where the unsold home inventory hit a record 686.3 million square meters by the end of October 2015, up 17.8 percent from the previous year.[40] Currently, however, only about 1 percent of China's migrant workers own a home in cities.[41] As more migrants are permitted to enter cities and purchase homes (often with the help of local government housing subsidies), demand for housing will increase, spurring economic growth.[42]

According to a recent study by the East Asia Forum, reforming the hukou system would increase overall household consumption, a stated goal of the Chinese government.[43] In 2014, urban residents consumed 291 percent more than their rural counterparts, with facilities and services consumption (a 37.6 percent gap) and spending on education (a 47.9 percent gap) contributing to the significant difference in consumption levels (see Figure 4).[44] The study showed that if migrant workers were enrolled in the same government programs as urban workers, their total consumption per capita would increase by about 27 percent, providing a significant lift to overall household consumption.[45]

Figure 4: Rural and Urban Resident Consumption, 1995–2015



Note: Data for 2015 are projections. The consumption ratio was calculated by dividing the consumption of urban residents by consumption of rural residents.
Source: China National Bureau of Statistics via CEIC database.

* Most migrant workers are employed in informal service sectors and live in group housing, leaving them without proper documentation to apply for urban residency. Zhou Tian, "Closer Look: Local Officials Have Little Love for National Hukou Reform," Caixin (English edition), February 25, 2015. *http://english.caixin.com/2015-02-25/100785562.html*.

Along with changes to household regulations, the announcement outlined reforms to improve the country's health insurance programs for rural residents and migrant workers. The current system provides different plans to urban and rural citizens, with urban residents receiving superior benefits and coverage.[46] Despite recent increases in medical coverage, subsidies for rural residents, and broadening reimbursement requirements, China's insurance still underserves the rural community: A survey conducted in 2014 found that while 40 percent of all Chinese people had medical insurance, only 18 percent of migrant workers were insured.[47] The new plan will create a unified basic health insurance system, integrating the existing medical insurance models for urban and rural residents. In creating a single health insurance system, China will consolidate its government-run insurance programs, increasing funding, coverage, and drug reimbursement for rural residents.[48]

The announcement also highlights changes to the "power list," or rankings of the government's top priorities.[49] According to the latest announcement, education will remain a high priority for the government, aimed at advancing innovation-driven development and serving the objectives of the state, including the "One Belt, One Road" initiative.[50] Senior Chinese officials also proposed running a pilot project in Sanjiangyuan Nature Reserve, a region in Qinghai Province, to attempt to create centrally controlled national parks. The statement indicated that "the pilot is significant because it will ensure natural resources in the region can be shared by people nationwide."[51]

China's Commitments at the Paris Climate Change Meeting

On December 12, 195 countries reached consensus on a global pact, the Paris Agreement, to reduce greenhouse gas emissions with the goal of keeping global warning "to well below" 2 degrees Celsius.[52] Some countries (including the United States but not China) committed to a 1.5 degree Celsius ceiling. The United States and China, and their coordination, were widely credited for the success of the agreement, and state-run news agency Xinhua said China "emerged to take the leading role" in negotiations.[53] Though the agreement commitments are nonbinding, and there will be no enforcement mechanism, most observers welcomed the agreement, especially the pledge from China—the world's biggest emitter of greenhouse gasses—to reach peak CO_2 emissions by 2030.[*] Paired with other commitments, including those made during President Xi's state visit to the United States in September 2015,[†] China is set for an ambitious carbon-cutting agenda.

China's willingness to play a bigger role in multilateral actions against climate change dovetails with domestic priorities. China's struggles with pollution and related health risks are well documented, with dismal air quality the most visible manifestation. In December, toxic smog smothering Beijing forced the government for the first time to issue red alerts[‡] for pollution.[54] Since Chinese public concerns over pollution undermine the government's legitimacy, the government has every incentive to take seriously its commitments to address pollution and climate change. However, questions remain about the government's willingness and ability to carry out necessary changes. For example, China acknowledged in the run-up to the Paris meeting that it underreported its annual coal consumption since 2000 by up to 17 percent a year.[55] This revelation makes China's pledge to reach peak emissions in 2030 less significant, because the peak may be much higher than anticipated.

Another factor contributing to skepticism is China's continued investment in coal-fired power plants. In the first nine months of 2015 alone, China approved 155 new domestic coal-fired power plants—despite massive coal-driven pollution and severe overcapacity.[56] A *New York Times* investigation revealed China is also investing in coal-fired power plants abroad: Since 2010, Chinese state-owned enterprises (SOEs) have "finished, begun building or formally announced plans to build at least 92 coal-fired power plants in 27 countries."[57] In the meantime, most other international lenders, including the World Bank and members of the Organization for Economic Cooperation and Development, have reduced or restricted public funding for coal-fired plants.[58]

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[*] Some analysts conclude China is likely to reach this goal even sooner. See, for example, Roger Harrabin, "China Greenhouse Gases: Progress Is Made, Report Says," BBC, June 8, 2015. *http://bbc.in/1G5dvmG*.

[†] For an in-depth assessment of the Xi visit, including climate change commitments, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, October 6, 2015. *http://1.usa.gov/1j4k1Db*.

[‡] Government measures associated with the red alert included school closures, factory and construction site shutdowns, and restrictions on vehicle use.

These examples show that for China, economic considerations continue to undercut carbon-cutting aspirations. Local government officials find it easy to generate income and employment by approving power plants, while Chinese SOEs export domestic overcapacity abroad.

Sector Focus: Internet Privacy and Freedom of the Press Eroded Further

China Passes Counterterrorism Law Mandating Decryption Cooperation

On December 27, the National People's Congress passed a long-anticipated counterterrorism law requiring telecommunications and Internet services providers to assist Chinese security forces in accessing and controlling information related to terrorist activity. Effective January 1, 2016, the law requires operators of telecommunications and Internet services to provide "technological assistance and support" to security agencies when requested, but leaves out controversial requirements present in earlier drafts of the law that firms provide security "backdoors" to authorities and store server and user data locally.[59] The new counterterrorism law is broadly worded, with firms' precise responsibilities to Chinese authorities left undefined until implementing regulations are put in place at a later date.

While the new law does not explicitly call for firms to provide the Chinese government with "backdoor" access (i.e., provide encryption keys or hand over source code) or to store data locally, it does mandate "telecommunications and Internet services operators provide China's Public Security Bureau and national security authorities with technological support and assistance in technical interfaces and decryption in accordance with the law to prevent and investigate terrorist activities."[60] In addition to these requirements, the law prohibits all institutions and individuals from "disseminating false information on terrorist incidents, reporting on or disseminating details of terrorist activities that might lead to imitation, publishing scenes of cruelty or inhumanity about terrorist activities, or reporting on or disseminating information on responders and hostages at the scene of a terrorist attack" under penalty of fine or jail time.[61] Citing the "common good," one Xinhua op-ed advised that "foreign media outlets in China as well as domestic media organizations comply with these regulations and make their due contribution to the global fight against terror."[62] Critics see the law as "another attempt by China to limit free expression and dissent under the guise of antiterrorism efforts," according to Mark Lagon, president of U.S.-based watchdog organization Freedom House.[63]

However, as implementing regulations have yet to be put in place—a process which could take up to six months—the scope and nature of cooperation required by media outlets and telecommunications and Internet services providers are not clearly defined, causing some analysts to worry that vague technical requirements could lead to breach of privacy and infringement on the intellectual property rights of U.S. firms.[64] According to U.S. State Department deputy spokesperson Mark Toner, the U.S. government remains concerned that the "broad, vaguely phrased" definitions and provisions within the law "could lead to greater restrictions on the exercise of freedoms of expression, association, peaceful assembly, and religion within China."[65] Likewise, the European Chamber of Commerce in China expressed lingering concerns over "market access, intellectual property rights, and the obligation to monitor, report, and censor terrorist content."[66]

Chinese officials, however, have denied the law will be used to violate intellectual property rights or impose security backdoors into foreign companies operating in China. Commenting on the law, Foreign Ministry Spokesperson Hong Lei stated it "will not restrict companies' lawful business, nor will it leave a backdoor open or infringe companies' intellectual property rights and citizens' freedom of expression."[67]

U.S. tech companies and government officials heavily criticized earlier drafts of the law,[*] which would have granted the Chinese government access to foreign tech firms' most sensitive data and domestic user information.[68] In March 2015, President Obama spoke out against mandated backdoor access programs for Chinese officials to

[*] For more information on China's draft counterrorism law, see U.S.-China Economic and Security Review Commission, Chapter 2, Section 4, "Commercial Cyber Espionage and Barriers to Digital Trade in China," *2015 Annual Report to Congress,* November 2015, 215–216.

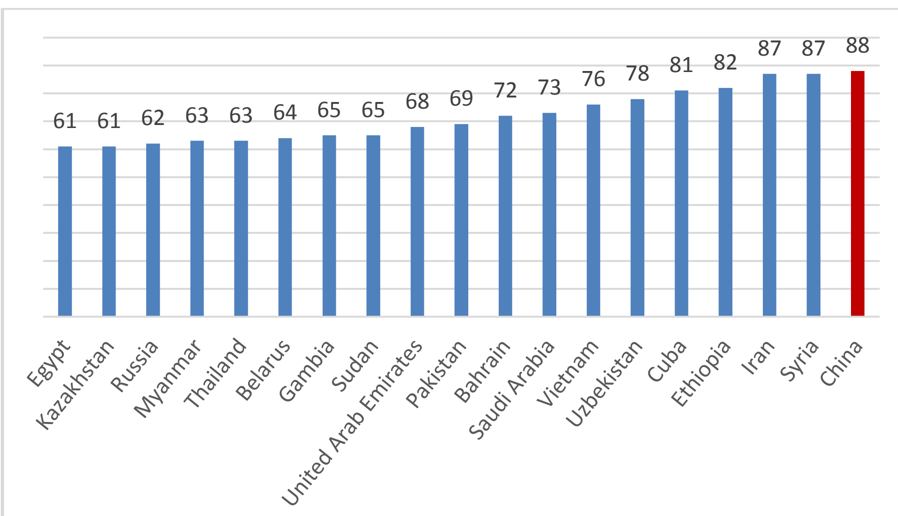
tech companies' core software, as well as the requirement to physically store Chinese user data and servers accessed by Chinese citizens within China.[69] Along with President Obama's remarks, Secretary of State John Kerry and U.S. Trade Representative Michael Froman expressed "serious concern" over these measures in a letter to the Chinese government.[70]

While the law did not explicitly contain the most worrying elements of the draft bill, earlier efforts by the Chinese government may have obviated the need to include them in this legislation. In September 2015 the Chinese government sought to extract a pledge from American tech companies to store Chinese data domestically and ensure their networks are "secure and controllable," language which could justify access to networks and software by the Chinese government.[71] It is unclear how many companies, if any, signed the pledge.[72] In July 2015, China passed a national security law which also required data networks to be "secure and controllable."[73]

"Internet Sovereignty," Jailing of Journalists Highlight China's Legitimization of Censorship

Though ranked as the worst abuser of Internet freedom in 2015 (as shown in Figure 5),* China hosted the second annual World Internet Conference (WIC)—sponsored by China's Cyberspace Administration of China and Zhejiang Province—in Wuzhen, Zhejiang, from December 16 to 18. Touted by its organizers as a platform for exchange on technology, the Internet, and innovation, the WIC also serves as a forum for Chinese leaders to promote their Internet governance ideology to an international audience.[74] In his keynote address at the conference, President Xi promoted the principle of "Internet sovereignty,"† arguing for "the right of individual countries to independently choose their own path of cyber development, model of cyber regulation, and participate in international cyberspace governance on an equal footing."[75] President Xi further defended Beijing's heavy-handed Internet censorship against U.S. and other supporters' calls for freedom of expression online, claiming "no country should pursue cyber hegemony or interfere in other countries' internal affairs."[76]

Figure 5: Freedom of the Internet Scores among Countries Ranked as "Not Free," 2015



Note: Scores are based on a scale of 0 to 100, with 0 representing the highest level of Internet freedom and 100 the lowest. The 2015 ratings reflect the period January 1 through December 31, 2014.
Source: Freedom House, "Freedom on the Net 2015: Table of Country Scores." *https://freedomhouse.org/report/freedom-net-2015/table-country-scores.*

* Freedom House ranked China 65th out of 65 countries in Internet freedom for its obstacles to access, limits on content, and violations of user rights. China's 665 million Internet users represent 21 percent of the total global Internet users. Freedom House, "Freedom on the Net 2015: Privatizing Censorship, Eroding Privacy," October 2015. *https://freedomhouse.org/sites/default/files/FH_FOTN_2015Report.pdf*.

† For more information on China's Internet sovereignty policies, see Kim Hsu and Craig Murray, "China and International Law in Cyberspace," *U.S.-China Economic and Security Review Commission*, May 6, 2014. *http://origin.www.uscc.gov/sites/default/files/Research/China%20International%20Law%20in%20Cyberspace.pdf*.

Chinese authorities have increasingly shifted from denying the existence of the "Great Firewall of China"—a term describing the largest, most extensive Internet censorship regime in the world—to using the concept of "Internet sovereignty" to argue for increased government control of the Internet in China.* Just weeks ahead of the WIC, China's Minister of Cyberspace Administration Lu Wei described regulators' need for increased reinforcements in intensifying a "rectification centered on online rumors, cracking down on online crime and online rumors, in order to protect the rights of netizens and adolescents."[77] In recent years, Mr. Lu has shied away from publicly admitting the extent of China's censorship efforts, claiming last year that the Chinese government has "never shut down any foreign sites" but admitting "it is possible" some foreign sites like Facebook are "inaccessible."[78] At the WIC, President Xi likewise appeared to ascribe democratic values to Chinese government censorship efforts, saying, "Freedom is what order is meant for, and order is the foundation for freedom."[79] According to Mr. Lu, "the Chinese government learned its [censorship] methods from developed western countries."[80] Roseann Rife, East Asia research director at Amnesty International, warned, "Under the guise of sovereignty and security, Chinese authorities are trying to rewrite the rules of the Internet so censorship and surveillance become the norm everywhere."[81]

Though many prominent Western websites—including Facebook, Twitter, and Wikipedia—are blocked in China, some leading foreign Internet companies and around 50 foreign officials attended the WIC.[82] Chinese media reported eight high-level government officials were in attendance, including Russian Prime Minister Dmitry Medvedev, Pakistan Prime Minister Nawaz Sharif and President Mamnoon Hussain, Kazakhstan Prime Minister Karim Massimov, Kyrgyzstan Prime Minister Temir Sariyev, Tajikistan Prime Minister Kokhir Rasulzoda, and Deputy Prime Minister of the Kingdom of Tonga Siaosi Sovaleni.[83] U.S. companies with representatives in attendance at the WIC included Facebook, Microsoft, IBM, LinkedIn, and Netflix; Chinese Internet giants Alibaba, Tencent, Baidu, JD.com, and Xiaomi were also in attendance.[84] International freedom of information advocacy group Reporters Without Borders called for a boycott of the WIC on the part of the international community, denouncing the conference as aiming to "ensure that Internet companies wanting to operate in China fall into line."[85] Charlie Smith, cofounder of Chinese censorship monitoring site GreatFire.org, argued the foreign guests who attended the WIC are "complicit actors in the Chinese censorship regime and are lending legitimacy to Lu Wei, the [Cyberspace Administration of China], and their heavy-handed approach to Internet governance."[86]

Amid President Xi's promotion of China's cyber sovereignty at the WIC, Pu Zhiqiang, a prominent civil rights lawyer and former defense attorney for artist Ai Weiwei, faced trial in Beijing on December 14 for allegedly posting online a series of comments critical of the Chinese Communist Party (CCP).[87] After 19 months' detention without trial, Mr. Pu on December 21 was convicted of "picking quarrels and provoking trouble" and "inciting ethnic hatred" for seven tweets† he allegedly posted on Weibo, China's Twitter-like social media platform, between 2011 and 2014, and was handed a three-year suspended prison sentence.[88] The tweets appeared to mock corrupt CCP officials and criticize government policy in Tibet and Xinjiang.[89] Though the sentence was lighter than feared—the charges carried a maximum sentence of eight years—Mr. Pu will be disbarred, preventing him from defending other targets of political persecution.[90] Outside the courthouse during Mr. Pu's trial, senior U.S. diplomat Dan Biers was shoved repeatedly by a group of men who appeared to be plainclothes police while attempting to read a statement calling for Mr. Pu's release.[91] An EU delegate was likewise interrupted when he attempted to make a statement.[92]

Persecution of Mr. Pu for online expression furthers the dismal trend of Chinese government crackdowns on freedoms of press, expression, and information. In 2015, China jailed more journalists than any other country, according to the Committee to Protect Journalists (CPJ), a nonprofit that defends press freedom worldwide (see Table 2).[93] The CPJ's report shows 49 journalists—a record high in China—were jailed there in 2015 for their work, representing one-fourth of journalists jailed globally that year.[94] In the face of stock market volatility, Wang Xiaolu, a reporter for business magazine *Caijing*, was arrested and detained in August on charges of "colluding with others

* For a more detailed description of China's online censorship efforts and other regulatory barriers to digital trade, see U.S.-China Economic and Security Review Commission, Chapter 1, Section 4, "Commercial Cyber Espionage and Barriers to Digital Trade in China," in *2015 Annual Report to Congress*, November 2015, 192–225.

† Translation and description of the tweets can be found in Zheping Huang, "The Seven Tweets That Could Cost a Chinese Human Rights Lawyer Eight Years in Jail," *Quartz*, December 9, 2015. *http://qz.com/569370/the-seven-tweets-that-could-cost-a-chinese-human-rights-lawyer-eight-years-in-jail/*.

and fabricating and spreading false information about securities and futures trading" after he wrote that the China Securities Regulatory Commission was examining ways for securities companies to withdraw funds from the stock market.[95] According to Xinhua, the article caused "unusual fluctuations" in the stock market.[96] The same month, before Mr. Wang appeared in court, Chinese state broadcaster China Central Television (CCTV) aired footage of Mr. Wang expressing regret for writing the story and pleading for judicial leniency.[97] In another troubling example, three brothers of Shohret Hoshur, an ethnic Uyghur journalist for U.S. government-funded Radio Free Asia, were jailed on state subversion charges in the summer of 2014, reportedly in retaliation for Mr. Hoshur's work.[98] Two of Mr. Hoshur's brothers were released unexpectedly in late December 2015, while one brother remains imprisoned under a five-year sentence for "endangering state security."[99]

Table 2: Top Jailers of Journalists in 2015

Country	Number of Journalists Jailed
China	49
Egypt	23
Iran	19
Turkey	14
Ethiopia	10
Azerbaijan	8
Saudi Arabia	7
Syria	7
Vietnam	6
Bahrain	5
Bangladesh	5
Myanmar	5

Source: Committee to Protect Journalists, "2015 Prison Census: 199 Journalists Jailed Worldwide," December 1, 2015. *https://cpj.org/imprisoned/2015.php*.

Mr. Pu and Mr. Hoshur are not the only individuals to come under fire in 2015 for publicly discussing China's controversial policies targeting the Uyghur population. On December 26, China's Ministry of Foreign Affairs confirmed that Ursula Gauthier, Beijing correspondent for French publication *L'Obs*, would be effectively expelled from China for "fail[ing] to make a serious apology" after writing a French-language article published November 18 that cast doubt on the Chinese government's attribution of terrorist attacks in Xinjiang to international terrorist organizations.[100] China's Foreign Ministry accused Ms. Gauthier of "champion[ing] acts of terrorism and the slaughter of innocent civilians" for suggesting Beijing's stated solidarity with nations threatened by the Islamic State has ulterior motives based in drumming up international support for its treatment of Uyghurs.[101] In response to her article, Chinese state-run media outlets *Global Times* and *China Daily* launched editorial attacks on Ms. Gauthier, claiming her views are "typical of the West's double standard" on terrorism, while Chinese websites carried aggressive comments—including death threats and her photograph and address—about Ms. Gauthier.[102] A foreign reporter was last expelled by Chinese authorities in 2012, when *Al Jazeera English*'s Beijing bureau was forced to close after authorities refused to renew the press credentials of its correspondent Melissa Chan, who covered a range of sensitive topics.[103]

While journalists are censored on the Mainland, the sale of stalwart English-language Hong Kong newspaper *South China Morning Post* (owned by media company SCMP Group) to e-commerce giant Alibaba raised fears of intensified information control in Hong Kong, where press freedom is protected.* On December 14, Alibaba paid approximately $266 million for SCMP Media group's assets, giving Alibaba control of the *Post*—a key English-

* For more information on declining press freedom in Hong Kong, see U.S.-China Economic Security and Review Commission, "Hong Kong," in *Annual Report to Congress*, November 2015, 533–560. *http://origin.www.uscc.gov/sites/default/files/Annual_Report/Chapters/Chapter%203%2C%20Section%204%20-%20Hong%20Kong.pdf*.

language source of Chinese news globally.[104] Alibaba is privately owned, and its leadership has dismissed suggestions the company would compromise the *Post*'s editorial independence in response to the Chinese government.[105]

For inquiries, please contact a member of our economics and trade team (Nargiza Salidjanova, *nsalidjanova@uscc.gov*; Lauren Gloudeman, *lgloudeman@uscc.gov*; Katherine Koleski, *kkoleski@uscc.gov*; Matthew Snyder, *msnyder@uscc.gov*; Sean O'Connor, *so'connor@uscc.gov*).

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