



China 2017  
Year in Review

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## INTRODUCTION: THE CONFIDENCE GAME

2017 was Xi Jinping's year. At the end of his first term, he swept away any opposition from within the Communist Party of China and successfully sealed his legacy by enshrining his 'Xi Jinping thought' into party canon. He also announced a 'new era' bearing his name, as well as set out his vision of a resurgent China that goes way beyond the five-year outlook of his predecessors. Reforms now include ideological purity and obedience to the Party as key components.

Having set his house in order, Xi now aspires to lead China onto the global stage in a far more confident manner than before. Buoyed by the apparent retreat of U.S. leadership in the world, Xi has taken the opportunity to offer his globalist world vision of win-win relationships and joint development. His key initiatives such as the Belt and Road received a boost, while world leaders appear to grudgingly recognize the ironic fact that 'communist' China is now the much-needed standard bearer for the free market.

Though the U.S. under President Trump has become more focused on domestic politics rather than global affairs, Xi is prudent enough to recognize that the U.S.-China relationship is still the Achilles heel to China's rise. In this 'new era' of larger-than-life political personalities, the relationship between Xi and Trump remains precarious yet vital for regional stability and growth.

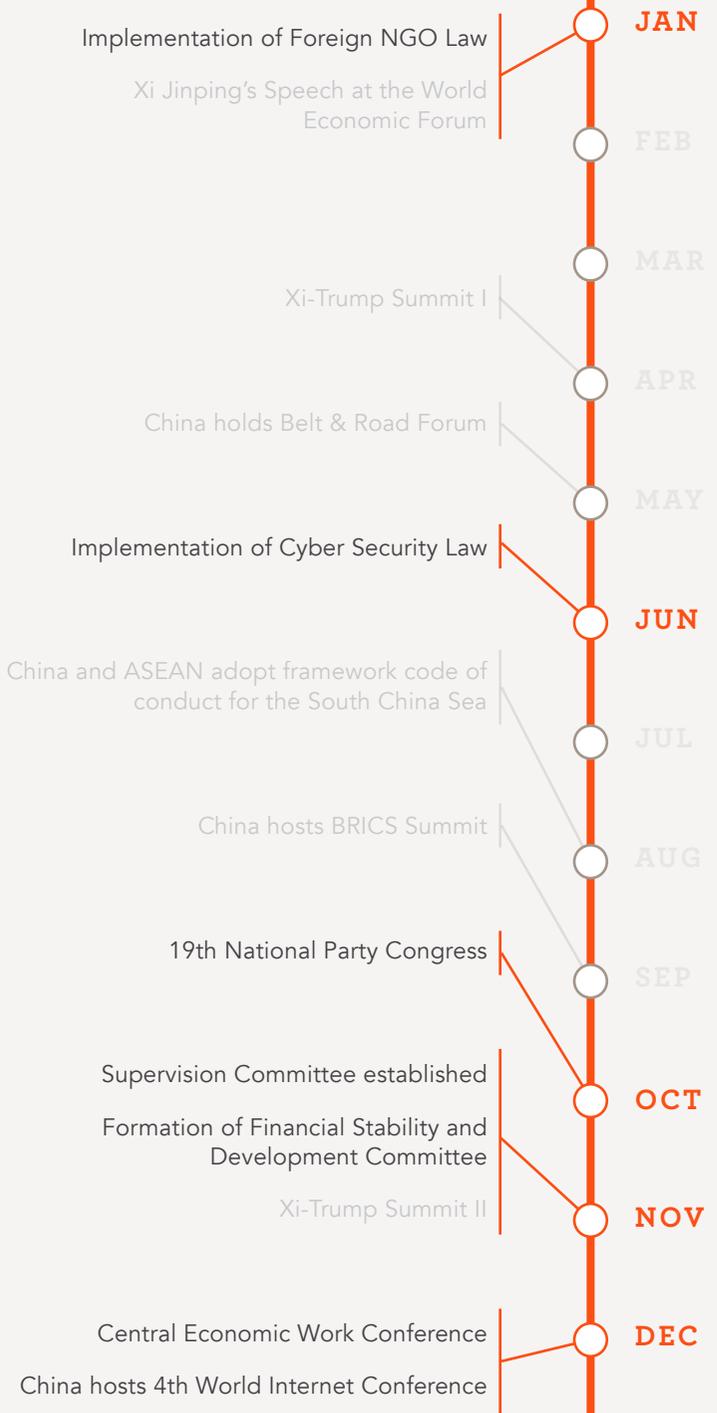
However much Xi would like to maintain the status quo in 2018, there are still signs that China will enter tumultuous waters in the months ahead. Looming trade actions from the United States, a disruptive and bellicose North Korea, as well as a severely cowed civil service at home more concerned with 'political correctness' than constructive dialogue, will all contribute towards a tense environment for foreign businesses operating in China.

2018 will likely see China continue its confident outward march into the world, but countries will increasingly demand to see actions to back up the words of leadership from Xi. Within the Chinese market, foreign companies will increasingly have to weigh their commercial interests against the increased encroachment of the Party. U.S. companies must be especially careful as they are trapped between the two strongman leaders of Xi Jinping and Donald Trump.

## 2017: AN EVENTFUL YEAR

2017 saw many events and milestones that reflected changing power dynamics in China and in the world. These largely followed three themes: increased internal controls in China, an increasingly confident China as an emerging global leader, and the potentially volatile U.S.-China relationship.

The following sections will explore these themes in more detail, highlighting the key events that both shaped 2017 and are setting the tone for foreign businesses operating in China in 2018. For a more concise assessment on individual sectors and the implications of Xi Jinping's ideological vision, please refer to [APCO's earlier research report on the implications of the 19th National Party Congress](#).



### INTERNAL CONTROLS: CLEANING HOUSE

2017 was the year of President Xi Jinping’s metaphoric coronation. Although he has been steadily consolidating his power since taking office in 2012, it was the 19th National Party Congress that sealed Xi’s legacy into the Party’s constitution and consolidated his undisputed power as leader of the Party and China.

From his unassailable position of power, Xi announced his determination to clean up China’s economy, eliminate corruption and turn his country into a beautiful, healthy and moderately prosperous country. Under the leadership of the Party, China has “stood up, grown rich and become strong” and is about to go through a historical transformation that will turn it into a global leader.

In this ‘new era,’ the Party, more so than ever before during its 70-year rule, must have absolute control in order for the country to advance. Xi Jinping’s tightened grip over the Party was accompanied by the strengthening of the Party’s power over all aspects of Chinese society. Throughout the year, a variety of new laws and regulations across all sectors turned this idea into a reality, consolidating the Party’s political, social, legal and economic control. These developments culminated in the 19th Party Congress, during which Xi delivered a loud and clear reminder that the Party “is the leader of everything.”

Foreign businesses have already felt the effect of this renewed political squeeze across all sectors. The implementation of the Cyber Security Law for example, has caused wide-spread disruption. By imposing new security requirements for network operators and limitations on cross-border data flow, the government (i.e. the Party) has given itself total control over its own cyber space. This concept of “cyber sovereignty” was reiterated at the annual World Internet Conference, and is likely to gain more traction as more implementation guidelines come into effect in 2018.

Xi Jinping has also increased Party scrutiny over and tightened management of civil society and philanthropic organizations through the implementation of the Foreign NGO Management Law, which followed on from 2016’s Charity Law. Both domestic and foreign-owned NGOs have since been subjected to increased regulatory oversight.



Other developments such as the creation of a new National Supervision Commission with unprecedented investigative powers, and new requirements for companies to set up internal party cells, are leading some to question whether there are any limits to party power. The creation of a social credit system, which will use big data to monitor and influence the behavior of not only the market and economy but also individual people and organizations, is another example of this trend. More than ever, foreign businesses must carve out a space to operate within an environment of heightened control and influence.



### GEOPOLITICAL: GOING OUT

"Anyone who offends China will be killed no matter how far the target is." The tagline for the Chinese box office hit "Wolf Warriors 2" echoed China's confident geopolitical mood in 2017. More than just military posturing, China's ambitions saw it preparing to shape the rules of global engagement.

China in 2017 adopted specific strategies for dealing with the West, developing countries and emerging markets. President Xi at the start of the year called on the world to "jointly shoulder the responsibilities of our times, [and] promote global growth" during the World Economic Forum in Davos, Switzerland. His advocacy for trade and investment liberalization positioned Chinese leadership as a clear alternative to the protectionism characterized by U.S. President Donald Trump's 'America First' rhetoric.

2017 was also a year of opportunity for China to move into the influence vacuum left by the U.S. and consolidate its position as an ascendant regional leader. Xi's own Belt and Road initiative received a healthy \$113 billion in extra funding during the year, while the United States withdrew from the Trans-Pacific Partnership (TPP). It is not surprising that many Asian states are reassessing their strategic calculus faced by this shift in the regional power dynamic.

Beijing seems to have also gained the upper hand in prickly sovereignty issues such as the South China Sea and Hong Kong pro-independence movements, with a new negotiation framework established with ASEAN for the former issue, and Xi setting out a clear red line for Hong Kong to "uphold national sovereignty, security and development interests" for the latter.

It has not been an entirely smooth ride for Xi, however, with criticisms arising from some countries with every step of China's outwards march. While Beijing dismisses these as typical 'China threat' paranoia, the danger of anti-Chinese hysteria in the future should not be underestimated. Setbacks to Beijing's overseas ambitions included Pakistan's rejection of a \$14 billion infrastructure agreement for the building of a dam with China, while President Trump's first national security strategy described China as a "revisionist" power trying to "shape a world antithetical to U.S. values and interests".



Image: World Economic Forum

**UNITED STATES-CHINA: DANGEROUS LIAISONS**

2017 began with the inauguration of U.S. President Donald Trump and ended with Chinese President Xi Jinping consolidating more power in China than any leader since Mao Zedong. 2018 could well turn out to be a contest between these two men in the arenas of trade, commerce and overall global leadership. The divergence between President Trump's 'America First' priorities and President Xi's vision for a 'new era' suggest a bumpy year ahead for companies operating in the world's two largest economies.

Structural issues undergirding trade relations between the two countries are nothing new, with the U.S. business community decrying Beijing's preferential treatment and state support of domestic companies for years. Technology transfer and joint venture requirements imposed on international companies have contributed to an uneven playing field. It is no surprise that a 2017 American Chamber of Commerce business confidence survey found 80% of U.S. companies felt unwelcome in China.



The U.S. Trade Representative's launch of a Section 301 investigation into Chinese theft of intellectual property and forced technology transfer is just one example of an effort to create a fair and reciprocal commercial relationship that began in 2017. Congress also proposed the Foreign Investment Risk Review Modernization Act, which advocates for increased scrutiny of the impact of foreign acquisitions on U.S. national security during the Committee on Foreign Investment in the U.S. review process.

Populist fervor stoked by President Trump has encouraged lawmakers on both sides of the aisle to take a more aggressive posture towards China, and there is a concern that these legislative moves are driven by politics more than economics. This U.S. resolve is being met with Chinese confidence, as Xi Jinping proclaimed at the 19th Party Congress that China seeks to lead the "global community with a shared future for all mankind."

As U.S. companies increasingly examine how their operations align with policy priorities of both the United States and China, the clear divergence of these national priorities will ensure that 2018 will be a turbulent year for the U.S. business community in China. This will be compounded by the Trump administration's potential tolerance of some U.S. companies losing ground in China due to aggressive trade policies from 'America First' priorities and campaign promises. More troubling is that these moves will spark overall instability and mutual distrust in the bilateral relationship.

But while Washington is expected to pursue aggressive trade measures in 2018, it is likely that these policies will be isolated to certain sectors and not affect overall global growth. Both the Bush and Obama administrations also imposed tariffs on Chinese goods for domestic political ends, without impacting the overall trade relationship. Outcry from the business community, and the delicate situation with North Korea which requires Washington to work closely with Beijing, could moderate these aggressive trade impulses.



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### Implementation of Foreign NGO Law

Date: January 1  
Location: China

China's Foreign NGO Law came into effect on January 1, 2017 subjecting foreign NGOs to close government scrutiny, stringent operating requirements and investigative powers of Chinese law enforcers. Aimed at limiting groups suspicious of "hostile" western influences, only less than a 100 out of around the 7,000 foreign NGOs in China have successfully registered under it. The law is still lacking detailed guidance for implementation.



### Xi Jinping's Speech at the World Economic Forum

Date: January 17-20  
Location: Davos, Switzerland

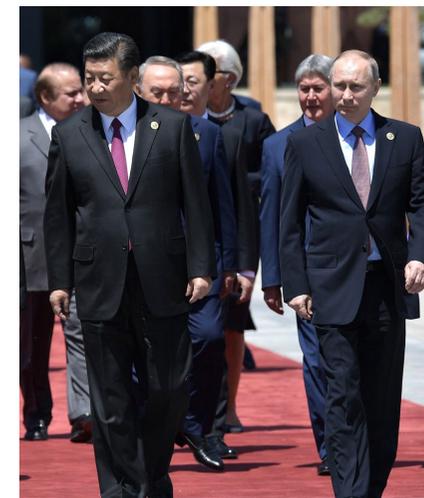
Three days before Donald Trump was inaugurated president of the United States, Xi Jinping delivered a strong defense of globalization during the first appearance of a Chinese head of state at the World Economic Forum. Xi made several indirect attacks on the U.S. president-elect, who had campaigned on a protectionist platform. Xi's case for free trade, regional integration and the fight against climate change was viewed as an attempt by China to fill the leadership vacuum on the world stage left by a shifting global order.



### Xi-Trump Summit I

Date: April 6-7  
Location: Mar-a-Lago, Florida

Meeting for the first time, Trump invited Xi for two-day talks at his Mar-a-Lago resort in Florida. Trump ditched his anti-China rhetoric which has been the trademark of his presidential campaign, hailing Xi's visit as "tremendous progress" for Sino-U.S. relations and saying he had developed a friendship with the Chinese president. The two sides agreed on a "100-day plan" to address the trade imbalance and a U.S.-China Comprehensive Dialogue, but failed to reach consensus on issues such as North Korea and maritime disputes.



### China holds Belt & Road Forum

Date: May 14-15  
Location: Beijing

In a diplomatic showcase, 30 world leaders gathered at the two-day summit in Beijing to hear China's ambitions for an interconnected trade, financial and cultural network stretching from East Asia to Europe and beyond. In his keynote speech, Xi Jinping pledged an additional 14.5 billion USD for the Silk Road Fund, which will help support the project alongside the Asian Infrastructure Investment Bank. The forum culminated in leaders signing a joint communiqué that championed globalization and free trade, but the real deals were made in the form of 68 bilateral agreements on the sides of the summit.

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### China and ASEAN adopt framework code of conduct for the South China Sea

Date: August 6

Location: Manila

When foreign ministers of China and ASEAN nations signed the framework, it was hailed as a step forward in conflict management for the South China Sea. The framework seeks to advance a 2002 Declaration of Conduct (DOC) of Parties in the South China Sea, which has failed to be more than partially implemented. The text includes a new reference to the prevention and management of incidents. However, the phrase "legally binding" is absent, raising doubts about how effective the pact will be.



### China hosts BRICS Summit

Date: September 3-5

Location: Xiamen

When the heads of state of Brazil, Russia, India, China and South Africa gathered in Xiamen from September 3-5, there was doubt over whether the summit would be successful. It was held against the backdrop of the three-month border dispute in the Doklam area on the border between China and India. Yet under the theme of "BRICS: Stronger Partnership for a Brighter Future," China agreed to provide an initial fund of 76.5 million USD to strengthen economic and technological cooperation among BRICS nations, albeit a small number compared to the extra 14.5 billion USD it pledged to the Belt and Road Initiative earlier in the year.



### 19th National Party Congress

Date: October 18-24

Location: Beijing

The highly anticipated 19th National Party Congress saw the consolidation of Xi's "core" position of power and further ideological tightening. Xi rose to become the most powerful leader since Mao following the enshrinement of his political thought bearing his name into the constitution. The Congress further ended without a viable successor being included in the standing committee, as during the two previous leadership transitions. Declaring the dawn of a new era of Socialism with Chinese Characteristics, the congress crystallized the Chinese dream of global leadership, national rejuvenation and a "beautiful" China.



### Supervision Committee established

Date: November 8

In November 2017, China's top leadership revised the draft National Supervision Law, which outlines the powers, role and structure of a new supervisory anti-graft agency, the National Supervision Commission. The law has been deeply controversial due to the supreme powers bestowed on the agency, which are even higher than those of the State Council. Despite strong opposition, the Chinese government is determined to push ahead with its plans.

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### Formation of Financial Stability and Development Committee

Date: November 8  
Location: China

Formed amid repeated warnings of China's escalating financial risks of housing bubbles, burgeoning debt, shadow banking, non-performing assets and bond defaults. The committee, which performs an authoritative rather than advisory role, will be key to the supervision, coordination, reform and strengthening of China's fragmented financial state.



### Xi-Trump Summit II

Date: November 8-9  
Location: Beijing

This was Trump's inaugural trip to Asia and his first visit to China since assuming the presidency of the United States. Both Trump and Xi exhibited an air of deference and hospitality, but did not resolve the main sources of tension in the U.S.-China relationship. The U.S. 301 investigation into China's intellectual property theft was ongoing at the time, prompting commentary that Trump's cordial visit would be followed by harsh trade measures upon his return home. The meeting concluded with the signing of 34 bilateral trade deals worth 253 billion USD, most which were MOUs agreed on before the visit.



### Central Economic Work Conference

Date: December 18-20  
Location: Beijing

The Central Economic Work Conference was the first time Xi laid out his vision for the Chinese economy following the 19th Party Congress. The conference highlighted China's new normal for the economy which will focus on high quality, people-oriented, sustainable and equitable growth. It will also take measures to rein in financial risks through a neutral monetary policy and proactive fiscal policy while continuing with multilateral diplomatic efforts through the Belt and Road initiative and hedging against a volatile United States. To achieve his vision of a "moderately prosperous society," Xi targets to maintain annual growth at 6.3 – 6.8 percent and to eliminate pollution and poverty by 2020.



### China hosts 4th World Internet Conference

Date: December 5  
Location: Wuzhen, China

Alongside rising criticism of social media in the West, Beijing has found new confidence demanding a greater say over how the Internet operates around the world. The WIC serves as an important platform for China to call for "cyber sovereignty", or that national governments should be able to control what Internet content is shared within national borders. This theme rang throughout the conference, given face to by the attendance of Apple and Google executives. In addition to IT executives, the WIC also convened government agencies and stakeholders to discuss the development of the Internet and relevant technologies.

## AUTHOR AND EDITOR

### Gary Li

Associate Director  
APCO Beijing

## ADDITIONAL AUTHORS

### Kaj Malden

Project Consultant  
APCO Shanghai

### Howard Kwong

Associate Consultant  
APCO Hong Kong

### Caroline Meinhardt

Policy Analyst  
APCO Beijing

### Delisa Jiang

Consultant  
APCO Singapore

### Imogen Page-Jarrett

Intern, Research Assistance  
APCO Beijing

## APCO CHINA

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## CONTACT

### Beijing

Anne Wang  
Suite 903, Tower C, Office Park, No.5  
Jinghua South Street, Chaoyang District  
Beijing, 100020  
+86.10.6505.5127

### Shanghai

James Robinson  
Unit 301-303, Platinum Tower,  
233 Tai Cang Road  
Shanghai, 200020  
+86.21.5298.4668

### Hong Kong

Christina Lai  
Unit 1102, Prosperity Millennial Plaza,  
663 King's Road, Quarry Bay  
Hong Kong  
+852.2866.2313

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