



# How CHINA DICTATES THE RULES OF THE GAME

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*“And if all others accepted the lie which the Party imposed—if all records told the same tale—then the lie passed into history and became truth. ‘Who controls the past’ ran the Party slogan, ‘controls the future: who controls the present controls the past.’” – George Orwell, 1984*

Recently, news coverage of Asia has focused on Donald Trump's trade war against the People's Republic of China (PRC). While it is an important story, as we have seen ad nauseam with Mr. Trump, he changes his mind quite frequently. The more important story with China has developed over the course of several months—China sails its aircraft carrier group in a controversial location; countries involved in China's Belt and Road Initiative (BRI) cede to it key ports; private companies apologize for breaking Chinese law; and the Trump administration accuses China of “Orwellian nonsense. All of these seemingly unrelated events and stories coalesce into a larger, much more troubling, picture of China asserting its economic might to dictate the rules of a new international order.

In 2018, the Chinese Communist Party (CCP) employed a new tactic whereby it determines—and often aggressively dictates—the way in which private companies and foreign governments classify Taiwan, parts of Tibet (or India), the South China Sea, and Hong Kong and Macao. In its quest to convince the world that Taiwan is indeed a part of the PRC, the CCP has resorted to outright

bullying, refusal of service, or fining companies that label or list Taiwan as its own sovereign country. The targeted companies are quite diverse: Marriott International, Mercedes-Benz, Gap, Zara, Muji, Delta Airlines, and many others.

The CCP has pressured foreign governments in the past, but is now becoming more overt in its attempt to dictate the rules of the game in both the private and public sectors. As the PRC expands its influence through its Belt and Road Initiative, there are accusations that China is carrying out “debt trap” diplomacy, in which it offers countries with poor financial standing predatory loans for infrastructure development. And when the country cannot pay back the loan, China takes the opportunity to take over a key port or area with valuable natural resources. The BRI and loan practices increase Chinese influence across the world, particularly in Southeast Asia, Central Asia, and Africa, where China is focusing its efforts for infrastructure development projects. The CCP now has modified the BRI playbook for the private sector, with a tactic called a “market trap” here, whereby companies that wish to remain in the lucrative Chinese market must accept Chinese terms in order to stay.

These dual tactics underscore the Chinese leadership's effort to re-shape international relations in its favor. By forcing companies to tow its line, particularly in regard to Taiwan and other



*Xi Jinping visits Donald Trump at Mar-a-Lago in April 2017.*

Chinese “territory,” China is incrementally changing reality in its favor. The recent development with private Western companies, combined with the influence garnered from the BRI, puts Western countries in a bind: how to properly combat these predatory tactics while still maintaining friendly relations with Beijing.

## Taiwan’s Status and China’s Rejuvenation

Throughout 2018, a common news story has been how China is forcing foreign companies to correct a labelling error or face consequences. The most recurrent offense relates to the designation of Taiwan—as that is the area in which the CCP is most sensitive. The official line used in newspapers around the world is that China views Taiwan as a rogue province.

The overarching claim that Taiwan is a part of the PRC is nothing new. The CCP and all high-level officials have made this assertion since the Kuomintang fled Mainland China to Taiwan in 1949. The main difference is that China now has the economic (and to some extent military) power to enforce its long-standing claim about Taiwan. At the 19<sup>th</sup> National Congress of the Communist Party of China in October 2017, Chinese President Xi Jinping made quite clear that his goal of the [“great rejuvenation of the Chinese nation”](#) cannot occur with the Taiwan question unsettled. In that address, he said, “Resolving the Taiwan question to realize China’s complete reunification is the shared aspiration of all Chinese people, and is in the fundamental interests of the Chinese nation.”

He later added, “We stand firm in safeguarding China’s sovereignty and territorial integrity, and will never allow the historical tragedy of national division to repeat itself. . . . We will never allow anyone, any organization, or any political party, at any time or in any form, to separate any part of Chinese territory from China!” Xi—and most Chinese citizens—view Taiwan as un-reclaimed territory whose existence prevents China from achieving its full potential.

The people of Taiwan have a different view on this matter.

Over the years, the CCP has enacted various policies to push Taiwan closer to China, but [as Taiwanese Foreign Minister Joseph Wu recently said](#), “The Chinese government always says it

wants to win the hearts and minds of the Taiwanese people, but their military threats against Taiwan and the diplomatic assault against Taiwan are not doing that.”

## A Market Trap

The Chinese market is one that many Western companies want—and need—access to in order to increase profits. With 1.4 billion people and a growing middle class that dwarfs that population of many Western countries, gaining access and a foothold in the Chinese market is a necessity to survive. [China’s middle class](#) “is expected to expand from 430 million today to 780 million in the mid-2020s.” While China has trapped many countries along the BRI in a cycle of debt, it has modified that tactic to become a “market trap,” whereby private companies are forced to abide by China’s rules in order to stay in the market.

Western companies understand that the CCP will only allow that much-desired access on its own terms. And in 2018, the CCP has taken those terms into the public sphere by publicly shaming companies that have labelled Taiwan, Hong Kong, and Macao as separate countries and not as a part of China, or omitted the Nine-Dash Line in the South China Sea as a part of Chinese territory. In January 2018, Marriott International—the large hotel chain which operates [over 250 hotels in China](#)—was the first high-profile target of China’s new tactic. The company was guilty on two separate charges: an email survey listed Taiwan, Hong Kong, and Macao as separate entities rather than as a part of China and one of its Twitter accounts “liked” a post by a Tibetan separatist group. China shut down Marriott’s websites and apps for one week as punishment.

[Marriott issued an over-the-top apology](#) in an attempt to get back in the good graces of the CCP:

Marriott International respects and supports the sovereignty and territorial integrity of China. Unfortunately, twice this week, we had incidents that suggested the opposite: First, by incorrectly labelling certain regions within China, including Tibet, as countries in a drop-down menu on a survey we sent out to our loyalty members; and second, in the careless ‘like’



by an associate of a tweet that incorrectly suggested our support of this position. Nothing could be further from the truth: we don't support anyone who subverts the sovereignty and territorial integrity of China and we do not intend in any way to encourage or incite any such people or groups. We recognize the severity of the situation and sincerely apologize.

The statement went on for another two paragraphs—and the unfortunate employee who liked the tweet [was fired from his position](#).

Another noteworthy example of both the odd nature of the offense and the over-the-top apology occurred in May with Gap Inc., the clothing company. Gap was selling a t-shirt with China's borders on the front, but the t-shirt used the "incorrect" map of the PRC by omitting Taiwan, "Southern Tibet," and the Nine-Dash Line. "Southern Tibet" is land under Indian control that China claims as part of its territory. *The People's Daily* [newspaper tweeted](#) out the correct version of the map—nine dashes included—and it looks as bizarre as one would expect.

In order to stay in the market, Gap ventured into the realm of geopolitics [with its apology](#):

Gap Inc. respects the sovereignty and territorial integrity of China. Upon the realization that one of our T-shirts sold in some overseas markets mistakenly failed to reflect the correct map of China, we urgently launched an internal investigation across the group and have decided to immediately pull back this T-shirt from all the concerned global markets. The related products were pulled off the shelves in the Chinese market and destroyed earlier.

Not only did the company remove the shirts from the shelves, it *destroyed* them.

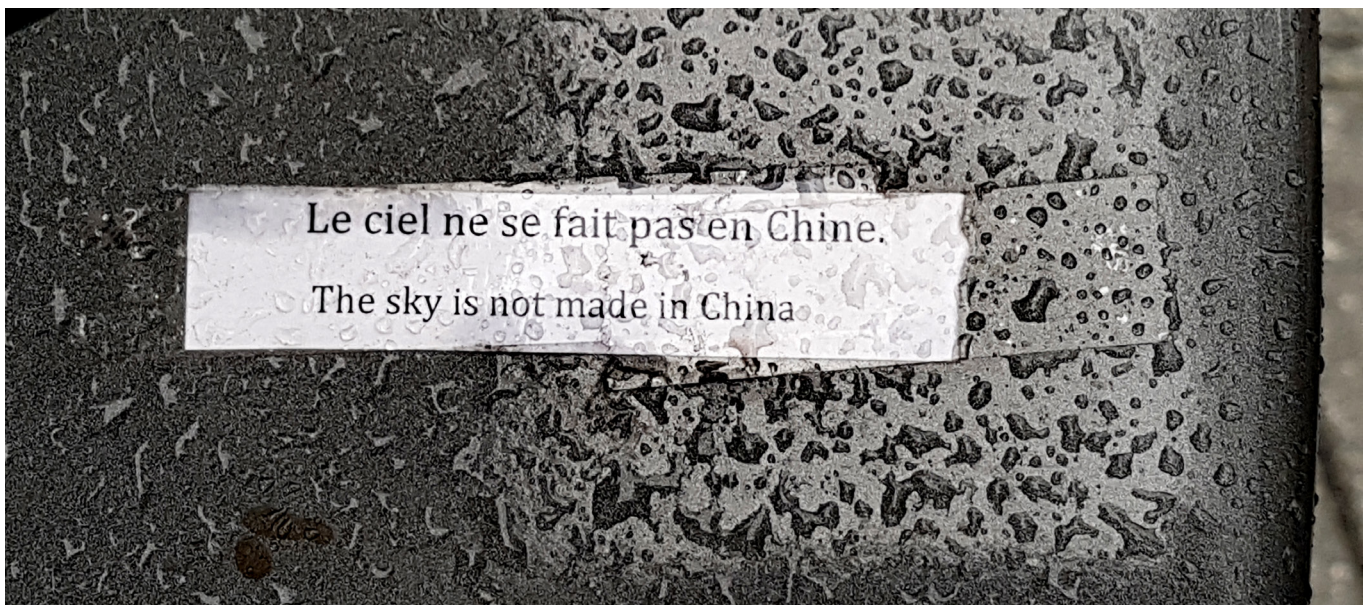
Other companies have not been as lucky as the Gap after being found in violation of advertising law. In 2015, the CCP amended its advertising law for the first time since 1994. The law warns



companies: "An advertising is a false one in any of the following cases Commodity performance, function, **origin**, usage . . . does not match the actual situation and has a material influence on the purchase decision." [Japanese company Muji](#) was fined over USD 30,000 for having packaging that labelled Taiwan as the country of origin.

International airlines have been a major target of Chinese pressure in the categorization of Taiwan, too. At the time of writing, Delta and Qantas's websites did not list Taiwan as part of China, but Lufthansa, British Airways, Air Canada, Air France, Turkish Airlines, and Marriott International all listed Taiwan as a territory of China. American airlines in particular are resisting the pressure from China to change how they label Taiwan.

Companies are now being forced to take a declared stance on the "One-China Principle," something that only countries had to deal with before. A majority of the world's nations recognize the PRC as the "one China," but they have various degrees of unofficial relations with Taiwan. It looks like private companies will have to follow suit if they wish to retain access to the Chinese market. The CCP's latest move leverages its economic status and growing markets to pressure companies into classifying Taiwan as a part of China—even though it does not have control of Taiwanese territory—but it is one of many parts of a greater strategy to undermine Taiwan.



(Source: Fredisonfire/Flickr)

## A Greater Strategy to Pressure Taiwan

Since Taiwanese President Tsai Ing-wen took office in 2016, the CCP has acted as if it tacitly understands that it can no longer win the hearts and minds of the Taiwanese. The primary reason for the increased aggression is that Tsai is a member of the Democratic Progressive Party (DPP), which for the first time won a majority in the country's Legislative Yuan. The DPP traditionally holds an anti-China/pro-Taiwan view, with elements of the party advocating for independence. As a way to "persuade" voters of the negatives of the DPP having power, China has enacted a number of other tactics to constrict Taiwan's international status. As a sign of things to come, China severed official communications with Taiwan in June 2016 almost immediately after Tsai's inauguration. The [New York Times](#) recently outlined how China is attempting to "erase" Taiwan through a variety of measures mentioned below.

In a short timeframe, the PRC poached some of Taiwan's few remaining allies. The [Dominican Republic](#) (May 2018), [Burkina Faso](#) (May 2018), [Panama](#) (June 2017), and [Sao Tome and Principe](#) (December 2016) all have switched recognition from the Republic of China (Taiwan) to the PRC. [Gambia](#), which cut official diplomatic ties with Taiwan in 2013, did not establish formal relations with the PRC until March 2016, shortly after Tsai won her election. The PRC has attempted to sway the Holy See—Taiwan's only European ally—into switching recognition, but so far, it has been unsuccessful. Tsai's government accuses

China of conducting "dollar diplomacy," in which it uses economic leverage to pressure Taiwan's few remaining allies to switch recognition. Before her tenure in office, there was an unofficial "diplomatic truce" between Ma Ying-jeou, Tsai's predecessors, and China, where neither side poached allies. At the time of writing, Taiwan only has 18 official allies.

Related to squeezing Taiwan's allies and international status is China pressuring international organizations not to invite Taiwan to participate as an observer or guest. A similar pattern to the poaching of allies has emerged. Before Tsai took office, Taiwan participated in a number of international organizations as a guest or observer. It attended the World Health Assembly (WHA), the annual meeting of the World Health Organization, which is a part of the United Nations, from 2009 to 2016. After 2016, for the past two years, Taiwan has not been invited, with the WHA citing its adherence to the "One China Principle." It also was excluded from the 39<sup>th</sup> Assembly of the International Civil Aviation Organization in 2016, a branch of the UN that deals with international aviation policy. The previous assembly took place in 2013 when China "[asked for Taiwan to be invited](#)." Similarly, Taiwan's attendees were expelled from the [2017 Kimberly Process](#), an international meeting combatting the trade of conflict diamonds, after the Chinese attendees complained. Taiwan's application to become an [observer at Interpol](#) was rejected in the autumn of 2016—it was the first year it had applied to attend the annual assembly after being





*The Liaoning, China's only aircraft carrier. (Source: CGTN)*

ejected from the organization in 1984. The CCP's typical li(n)e for Taiwan not needing to attend is that China oversees Taiwan's needs when it comes to issues related to these various international organizations.

The pressure on Taiwan also comes from the military sector. The number of Chinese encirclement mission around Taiwan with nuclear-capable bombers has risen since 2016. Chinese planes generally fly through the Miyako Strait to the northeast of Taiwan and then back to China between the southern tip of Taiwan and the Philippines. One high-profile example occurred before the now-infamous phone call between then-President-elect Donald Trump and Tsai in 2016. And another occurred in April 2018 with much fanfare; the People's Liberation Army proudly released images and videos as well as a [commemorative envelope](#) from the mission. The inscription on the envelopes reads, "Taiwan, the Treasure Island, is harbored by our motherland. The motherland will always be in our heart. It is the sacred duty of any PLA pilot to safeguard the territory of our motherland." These air missions that push into Taiwanese airspace, with the accompanying boastful attitude, complement Xi's statements about bringing Taiwan back home.

The People's Liberation Army Navy (PLAN) has also sailed its only aircraft carrier, the *Liaoning*, to the west and east of Taiwan in another form of pressure. The carrier group has sailed through the Miyako Strait to [conduct drills in the Western Pacific](#). The Liaoning has sailed through the Strait

a number of times since 2016, keeping both [Japan](#) and Taiwan on guard. In response to the drills, both countries scramble jets and ships to monitor the naval vessels' movements. In July 2017, the Liaoning sailed through the Taiwan Strait—also an increasing occurrence—on its way to [Hong Kong](#) for its first-ever port call to mark the 20<sup>th</sup> anniversary of the region's transfer from the United Kingdom back to China. Furthermore, in April 2018, the PRC announced a surprise one-day live drill in the Taiwan Strait. But Tsai's government said that the scale of the event was exaggerate and ended up only being a "[routine](#)" drill. Whether or not these drills and movements are as large or important as the CCP advertises, the hype that follows the announcements puts China's forces on full display for the world. The underlying message behind the drills—that China has the ability to project military power and Taiwan does not—is just as if not more important than the drills themselves.

All of these examples—plus the addition of the forced apologies—demonstrates a concerted, multi-pronged effort to undermine Taiwan. Tsai recently warned the international community of the danger posed by China's challenge to Taiwan: "[This is not just Taiwan's challenge](#), it is a challenge for the region and the world as a whole. Because today it's Taiwan, but tomorrow it may be any other country that will have to face the expansion of China's influence. There democracy, freedom, and freedom to do business will one day be affected by China." And countries along the BRI are starting to see that expanded influence and pressure.



*The Port of Hambantota in Sri Lanka. (Source: Wikimedia Commons )*

## China's Debt Trap

In 2013, Xi introduced the Silk Road Economic Belt and the 21st-century Maritime Silk Road, then commonly known as the One Belt One Road Initiative. Now called the Belt and Road Initiative, the project is a Chinese plan to develop the infrastructure of dozens of countries that are located along the ancient Silk Road that links China to Europe. The project also includes a string of ports, called “pearls,” along the Indian Ocean. The infrastructure development would occur primarily through [low interest rate loans](#) with a long shelf life before repayment as well as foreign direct investment. Concerns were raised about countries with poor financial standing receiving large influxes of money with no realistic chance [to pay the loans back](#). Another aspect of the BRI is that Chinese companies charge lower prices than competitors, thus essentially removing any competition for contracts and providing jobs for Chinese workers. This practice is referred to as a “debt trap.”

And since 2013, that fear has turned into reality in several countries. Unable to pay back the loans, countries hope that China will forgive the debt, which has occurred, but most of the time, China forces concession on to the countries for debt forgiveness or reduction. It acquires a key asset, normally a port, in exchange for the reduction or forgiveness.

In Sri Lanka, the government accumulated over \$1 billion of debt, so the government struck a deal

with the CCP [to acquire the port of Hambantota](#) on a 99-year lease in exchange for removing over \$1 billion of Sri Lankan debt. Hambantota is located near strategic trade routes in the Indian Ocean. A similar situation occurred in [Djibouti](#), where the government was in debt to the CCP, so it leased a port for 99 years for \$20 million per year. China has its sights set on Pakistan, where it plans to develop rail lines, roads, and a port, which assuredly will have the same result as Sri Lanka and Djibouti.

In Laos, China is developing a [high-speed rail line](#) that would connect the two countries. The project is estimated to cost \$6 billion, [almost half of the country's gross domestic product](#) (\$13.7 billion). As part of the project, China received land concessions near the track. One of the more controversial parts of the Laos rail project is that all of the workers are Chinese, so the project will never create many jobs in the country. Instead, 30,000 Chinese workers will build the rail line. The presence of the [Chinese workers](#) is not unique to Laos—one of the key tenets of the BRI projects is to reduce the overcapacity of construction in China.

Chinese companies are also involved in this process. In [Greece](#), a Chinese company purchased the port of Piraeus for \$436 million, and in Australia, another company paid \$388 million for a 99-year lease at the port of Darwin.

As countries scramble to avoid defaulting on loans and China acquires key assets for debt forgiveness,





*Palau Pacific Airways (Source: GB.NZ/Flickr)*

its economic and political influence in these countries will only grow. With so much money invested in their countries, these governments will feel pressure to avoid angering the CCP and will tow the Chinese line on certain issues like Taiwan.

## Countries around the World Respond

The CCP understands that these companies need China more than China needs them, so it has the ability to dictate the rules of the game for both entry into the market and continued access to it. If a company violates its terms, then there is almost certainly another similar company willingly to abide by China's demands to fill that gap. Therefore, Western companies—like countries that have fallen into the debt trap—essentially have no choice but to accept the CCP's terms of engagement.

The typical [official Chinese statements](#) whenever it shames a company seems to make sense of the surface: "We have to point out that foreign enterprises operating in China should respect China's sovereignty and territorial integrity, abide by China's law and respect the national feeling of the Chinese people. This is the basic principle for them to follow when doing business here." The CCP also claims that the companies are violating cybersecurity and advertising laws.

Such omissions have also apparently insulted the [Chinese people to their core](#).

The Trump administration, for its part, released a statement in May 2018 after the Chinese Civil Aviation Administration demanded that 36 airlines amend their website to label Taiwan, Hong Kong, and Macao properly. Airlines are one of the biggest offenders of mislabeling these three places. [The administration's statement said](#), "This is Orwellian nonsense and part of a growing trend by the Chinese Communist Party to impose its political views on American citizens and private companies. . . . China's efforts to export its censorship and political correctness to Americans and the rest of the free world will be resisted."

The statement ended, "The United States strongly objects to China's attempts to compel private firms to use specific language of a political nature in their publicly available content." Notwithstanding the Trump administration's own issues with "Orwellian nonsense," the statement demonstrates just how pervasive China's reach is.

[Australian Foreign Minister Julie Bishop](#) warned Beijing not to pressure or to threaten Qantas, an Australian airline, into following the CCP's line. She said, "There should be no pressure from governments, whether our or others, that threatens the ordinary operations of business."

And most recently, the small Pacific island of Palau dared to defy Taiwan by refusing to bow to pressure over how to properly classify Taiwan. Palau Pacific Airways had to suspend its operations in July 2018 due to apparently branding Palau "an illegal tour destination." According to the [South China Morning Post](#), "Taiwan's local media reported that the mainland had imposed a ban last November on tours to Palau and the Vatican – also one of Taiwan's allies – and that agencies could face a steep fine if they run trips to those destinations." Taiwan has stepped up by adding more weekly to Palau, but it will difficult for Taiwan to make up the difference as 47% of Palau's visitors in 2016 came from China.

However, not every country is willing to release such harsh statements for fear that China might retaliate. For example, in March, [India cancelled a series of events](#) hosted by the Dalai Lama and his followers for fear that it would spoil high-level meetings going on between the two countries. In late 2017, the two countries' ongoing border dispute escalated. Indian officials worried that hosting a high-profile event from the Tibetans in exile would anger China.

In February, [China bullied a hotel](#) on the small African island nation of Mauritius into cancelling a Hakka—an aboriginal culture of Taiwan—cultural event there because the official name of the group hosting the event was Hakka Affairs Council of the Republic of China. The CCP even threatened to push Mauritius government into barring Taiwanese officials from entering the country.

## Under China's Eye

The CCP's latest tactic in undermining not only Taiwan's international status but also the independence of private companies has been relatively successful so far. Major companies—and countries—have backed down fearing China's wrath. And it does not look like the future will be any brighter.

As China expands its Belt and Road Initiative across Central Asia, the Middle East, and Europe, more countries and companies will not hesitate to abide by China's terms—and reality. The investment that China has promised to impoverished and developing nations will allow it to dictate the future of these countries' interactions with places like Taiwan. The same goes for private companies. The governments of these countries and the executives of these companies must ask themselves how much independence and sovereignty they are willing to give up to appease Beijing in order to remain in the CCP's good graces.

There is one particularly illustrative case of the power of China's market. After South Korea deployed the Terminal High Altitude Air Defense (THAAD), a missile defense system created by the United States in 2017, the [CCP encouraged consumers](#) to boycott Korean products. It also [shut down 90 Lotte supermarkets](#) for supposed fire violations—though inspectors never visited the stores to fix the problems. Chinese tourists who once flocked to Seoul stopped going at the encouragement of the party, causing many Korean businesses to shutter. The CCP's unofficial policy demonstrated the country's economic might, and the party could use that power to benefit or to harm.

The South Korea example—in essence a test run for what it is doing now—shows a dual effort by the CCP to push a foreign government to abide by its demands. While the South Korean government never removed THAAD, it took many months for relations to improve and businesses lost millions of

dollars. The CCP used economic leverage to achieve a goal.

It is not hard to imagine the CCP towing an even tougher line with respect to Taiwan, Tibet, or other disputed territories. And with China's growing presence abroad and increasing market size, it also is easy to imagine a situation where a country or company is successfully swayed by such a strategy. And countries seeking to receive cash influxes from China may easily agree that one or all of these locations is a part of China.

As former Taiwanese President Lee Teng-hui recently [said to the New York Times](#), "China's goal 'is to swallow up Taiwan's sovereignty, exterminate Taiwanese democracy and achieve ultimate unification.'" The concern should move beyond Taiwan since countries like Sri Lanka and Djibouti have found their sovereignty reduced by Chinese demands, and a similar situation will almost certainly occur in Laos, Pakistan, and other countries where China is investing heavily. The world is at critical juncture where countries and companies alike must decide whether they will acquiesce in China's domination or start pushing back. 🌐







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