



Issue 11/2017 (June 2-15, 2017)

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## METRIX

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The „Shanghai Tower”, at over 600 meters the second tallest building in the world, is almost half empty. Only 60 per cent of office space has been leased out, and only one third of the tenants **have moved in**. Analysts say this was a sign that the skyscraper boom was coming to an end. 46 per cent of all skyscrapers above 150 meters were built in China.

## TOPIC OF THE WEEK:

### Property rule change sparks rare public protest in Shanghai

Hundreds of angry homeowner have marched through a shopping district in the center of Shanghai to protest against new housing rules. A video on [Youtube](#) showed demonstrators gathering in East Nanjing Lu on June 10. They protested against new measures announced on May 17 by Shanghai's housing bureau to return commercial premises that had been converted into apartments back to commercial use. According to the new regulations, property owners have to remove toilets and bathrooms and face heavy financial losses when selling the units. Videos on the internet show the Shanghai police putting up barricades and leading away several demonstrators.

Similar protests have been reported in other districts of Shanghai on [May 24 and May 28](#). Chinese media did **not report** these incidents. Following the protests on Nanjing Lu last Saturday internet searches for "East Nanjing Lu" and "Shanghai East Nanjing Road" were partly blocked on social media platforms like Weibo and Wechat.

With the new measures the Shanghai government tries to clean up a grey area in the housing market and curb run-away property speculation: Because of the housing shortage in Shanghai, authorities used to turn a blind eye to developers selling commercial units as private apartments. Those units are usually much cheaper than apartments on residential-zoned land. House prices in residential areas have skyrocketed in recent years: A simple apartment sells for 50,000 CNY (6,600 Euro) per square meter. The converted units cost about half of that.

The new measures cover about 17 million square meters of projects. The average unit size is thought to be about 100 square meters, and some 170,000 owners in Shanghai could be affected by the new rules. Many are worried about financial losses after buying property with the help of bank loans or by pooling their family's savings. "You cannot take my home, just because the government changed its mind," said one angry protestor quoted by the [South China Morning Post](#).

Small protests are not unusual in China but demonstrations in the center of big metropolitan areas like Shanghai are rare and a cause for concern to the authorities. To placate middle-class anger, Shanghai's municipal government has signaled its willingness to compromise: Owners of converted commercial units can move in themselves, the authorities were reported **as saying** on June 12, but they won't be allowed to sell these units as private apartments.

## CHINA AND THE WORLD

### India and Pakistan join Shanghai Cooperation Organization

After a two-year long process, India and Pakistan formally joined the China-led Shanghai Cooperation Organization during the SCO summit last week (June 8-9). It's the first time the regional security grouping was expanded since its founding in 2001. At the meeting in Astana, Kazakhstan, China's president Xi Jinping **emphasized** the SCO's role: "Security is the prerequisite for development. Without security, there will be no development to speak of."

The SCO was founded by China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Initially China was reluctant to admit new members but changed its stance a few years ago. Chinese analysts now called the organization's expansion **timely** because instability and terrorism, especially in Pakistan, were threatening China's key foreign policy project, the Belt and Road Initiative (BRI), a planned network of transport links across Asia.

Whether the expansion will increase the SCO's and China's influence in the region remains to be seen. India has recently voiced strong criticism of the BRI. In addition, disputes between India and Pakistan could lead to tensions within the SCO. However, further expansions are likely. Iran wants to join and even NATO-member Turkey has expressed an interest.

**MERICs analysis: Can Turkey play the Shanghai card?** China's take on Ankara's Eurasian security endeavours and what it means for Europe's security architecture, in: Security Policy Working Paper No. 6, February 16, 2017. By Mikko Huotari, Jan Gaspers and Thomas Eder.

### New reports highlight Chinese attempts to gain influence in Australia

An investigation into how China is trying to influence politicians and public opinion in Australia is causing concern, heated debates and indignation Down Under. The reports by the media group Fairfax Media and the broadcaster ABC highlights three types of Chinese activities: **monitoring and controlling Chinese students** who participate in activities critical of Beijing's policies, donations to major political parties, and influencing Australian government officials through entrepreneurs of Chinese origin.

According to the investigative reports, the billionaire businessmen Huang Xiangmo and Chau Chak Wing made generous donations to both the Liberal Party and the Labor Party. Both men have been accused of having contacts with the Chinese secret service.

For several years, Australian media have reported growing Chinese influence in the country. Senator Sam Dastyari of the Labor Party resigned last year after it was revealed that he had received thousands of dollars in donations from Huang. Afterwards he publicly defended – contrary to his party's line - China's position in the territorial disputes in the South China Sea.

After the latest revelations, the Australian government **announced new anti-espionage legislation**. Calls also have grown louder for a **parliamentary inquiry**. Foreign donations to Australian political parties could be banned.

For the government the latest reports pose a challenge as they make the balancing act between Beijing and Washington even more difficult. China is Australia's biggest trading partner; economic ties have grown considerably over recent years. A spokeswoman for the Chinese foreign ministry called the reports about espionage in Australia "groundless" and "irresponsible". Chinese **commentators** said the Australian reports were full of "loose speculation" and "**evidence-less conclusions**".

**MERICS analysis: Boosting the Party's voice: China's efforts to shape the global ideological discourse**, MERICS China Monitor No. 34. By Mareike Ohlberg.

### **Panama establishes ties with China, ditches Taiwan**

Panama has established diplomatic ties with China and broken with Taiwan in a major victory for Beijing as it tries to further reduce the number of countries that have formal relations with the self-ruled island. Panama was one of Taiwan's oldest and most important friends.

The country's role as a transportation hub and financial center in Central and South America give it **strategic importance** to Beijing. China is the second most important customer of the Panama Canal that links the Pacific and the Atlantic oceans.

Panama's move comes after economic ties with China have expanded in recent years with an increasing number of companies setting up a presence in the country. Last year China's Landbridge Group bought Panama's largest port located at the Atlantic entry point to the Panama Canal. The company started construction of a \$1 billion deep-water port and a container terminal on June 7.

Taiwan expressed disappointment and anger over Panama's decision to cut diplomatic ties and said it would not compete with China in what it described as a "diplomatic money game."

### **News in brief**

- **Delay**: Russia puts off plans to issue CNY-denominated bonds
- **Shangri-La Dialogue**: China gets praise and criticism from US
- **Overseas investment**: US lawmakers try to block Aleris sale to China

## **POLITICS, SOCIETY AND MEDIA**

### **Cyberspace administration criticized for not being loyal enough**

China's internet regulator, the Cyberspace Administration of China (CAC), has come under heavy criticism from the powerful Central Leading Small Group for Inspection Work (中央巡视工作领导小组). Party

inspectors **criticized** the CAC for not implementing directives by President Xi Jinping fast and resolutely enough. The CAC was also accused of a “weak sense of political responsibility (政治责任), lack of political consciousness, and the problem of „cliques (小圈子).

The criticism is harsh given the CAC’s numerous new regulations and the ongoing crack-down on “undesired” content on the internet. **Earlier this month** the CAC closed a large number of entertainment and “celebrity news” accounts on social media platforms. The CAC said these closures were in line with the new cyberspace law that came into effect on June 1<sup>st</sup>. The inspections of the CAC took place in March and April.

The focus of the inspectors’ criticism on the political loyalty of the CAC comes months before a key meeting of the Chinese Communist Party (CCP). Ahead of the 19<sup>th</sup> Party Congress, due to take place in the fall, the CCP seems keen to ensure absolute loyalty to Xi Jinping and the reliability of the most important organization in charge of managing cyberspace in China.

**MERICS analysis: Information Control 2.0: The Cyberspace Administration of China tames the internet**, MERICS China Monitor No. 32. By Nabil Alsabah.

### **Beijing extends ban on “overly religious” names in Xinjiang**

Muslim children and teenagers in the Xinjiang Uighur Autonomous Region in western China have to change their given names if these are “overly religious”. Authorities **listed up to 15 names** that are now banned, including Islam, Quran, or Mecca. **In April** the authorities already banned 29 names for newborns. The extended regulations apply to all Uighur children under 16, the age at which Chinese citizens receive their national identity cards.

The new list was published during the Muslim holy month of Ramadan. During this time, the authorities also ordered parades by the Armed People’s Police and mass rallies for people to show their loyalty to the Chinese Communist Party. Similar to previous years, university students and government employees were not allowed to fast. Contrary to religious traditions, shops and restaurants have to remain open.

Since taking office last August, Xinjing’s Party Secretary Chen Quanguo has imposed several new measures to strengthen the CCP’s grip on the province that has seen ethnic strife and conflict for many years. In addition to mass rallies and parades these measures include obligatory “exchange programs” between Han Chinese and Uighurs.

### **News in brief**

- **Stress test:** 40 years of Gaokao college entrance exams
- **Have your say:** China aims for more transparency in decision making
- **Generational divide:** Protest movement of ’89 less significant to young people in Hong Kong

## ECONOMY, FINANCE AND TECHNOLOGY

### Stricter rules for online finance begin to bite

New government regulations and guidelines governing online finance (FinTech) appear to show first results. The stricter regulations have resulted in some online wealth management products (WMP) closing and others offering lower, less risky yields. Average returns that stood above 10 per cent last year have dropped about 1.75 points to 9.21 per cent in May, according to wdjz.com, a [website](#) tracking the sector.

The rules were introduced by the banking watchdog CBRC last month as part of ongoing attempts to regulate the shadow banking sector, increase transparency and reduce fraud. In addition, the People's Bank of China (PBOC) set up a FinTech regulatory [committee](#). More regulations are likely to follow. At a recent banking [forum](#), CBRC's new head, Guo Shuqing, stressed the need for tighter supervision and the implementation of existing rules.

Online finance became popular in China in the late 2000s and provides credit to customers unable to get loans through traditional banks. But the largely unregulated sector is prone to fraud and Ponzi-schemes with many private investors falling for the promises of unrealistic high returns for parting with their money.

### Apple contractors arrested for selling customers' private data

The Chinese police has arrested 22 people of a criminal gang accused of selling private data of an unspecified number of Apple customers. The police in Cangnan County in the eastern province of Zhejiang said the suspects had sold the data, including names, phone numbers and Apple IDs, for a [total of 50 million yuan \(\\$7.36m\)](#). It's not clear whether passwords and financial information like credit card numbers were also stolen.

[According to the police](#), the data theft was organized by employees of one of Apple's direct Chinese subcontractors that worked in direct marketing and outsourcing.

The theft of personal information is a serious problem in China, which implemented a controversial new cybersecurity law aimed at protecting the country's networks and private user information on June 1st.

In February 2016, 20 million accounts on Alibaba's e-commerce site Taobao were reportedly hacked and data sold. Apple has also been a target in the past: Ten employees of an Apple contractor were found with data of more than 80,000 users last year.

The new case could tarnish Apple's image in China were the company's products are seen as a status symbol of the middle class.

### News in brief

- [Mixed picture](#): Economic data for May solid amid signs of cooling

- **Rising again:** Forex reserves reach 7 month high
- **Lightening the load:** China expands tax breaks for SMEs
- **Faking it:** Two provinces falsified economic data

## THE EUROPEAN VIEW

### What Macron could mean for European China policy

France's new president Emmanuel Macron has wowed European and international audiences by standing up to US President Donald Trump and Russian President Vladimir Putin. But to balance the US and Russia, Macron will need China's cooperation on issues like climate change. While he might open up new channels for Sino-European cooperation, he could also push Europe towards a tougher stance on trade and security issues. Read more in our latest blogpost by Bertram Lang.

## MAD MERIX

### Too tired to steal? Just take a nap

Most burglars head for the hills once their deed is done. But a suspected thief in the central province of Hubei was in no rush to get away: After entering a farm house in the village of Huanggang, the man climbed into a bed to take a nap, according to [media reports](#). The farmer, returning home in the evening, found the man fast asleep. Before the man could get away, the farmer bolted the door and called the police.

The police said the man had planned to steal but failed to find cash or valuables. But the suspect insisted he was not a thief: He was hungry and tired, he said, when he found the door of the farm house unlocked and decided to walk in and lie down. He also told the police that he left his own home after a quarrel with his family and had wandered around stealing food and other items to survive. The police investigation is continuing.

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