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## TOPIC OF THE WEEK: 20<sup>th</sup> anniversary of Hong Kong handover

### Atmosphere tense in Hong Kong ahead of handover anniversary, Xi visit

Tensions are running high in Hong Kong as the Special Administrative Region prepares for the 20<sup>th</sup> anniversary of the handover to China on July 1<sup>st</sup>. As part of the celebrations, China’s president Xi Jinping visits from June 29 to July 1<sup>st</sup> and the city’s new Chief Executive, Carrie Lam, will be sworn in. It’s Xi’s first visit to Hong Kong since he became president in 2013.

Hong Kong’s authorities, worried about pro-democracy protests, have banned **slogans** and images they believe could embarrass Xi. Among the blacklisted items are references to the 1989 Tian’anmen protests (平反六四) and demands for democracy (我要真普選). Protestors are reportedly not allowed to gather in Victoria Park, the traditional **starting point** for the annual demonstrations on handover day. Pro-democracy activists have already veiled in black a flower **statue**, a symbol for the successful reunification of Hong Kong with the mainland.

The nervousness ahead of the handover anniversary illustrate the current conflict in Hong Kong. Ever since the city was returned to the mainland in 1997, the SAR has seen large-scale protests on the anniversary against mainland curtailments of its political system. Yet tensions have risen markedly over the last few years between those who want more autonomy for the city and pro-Beijing forces. The pro-democracy movement culminated in the 2014 umbrella protests for universal suffrage.



In preparation of the 20th anniversary of its handover to China, flags adorn the streets in the Special Administrative Region of Hong Kong. Source: ImagineChina

While Hong Kong's economy is more deeply intertwined with the mainland than 20 years ago, many citizens, especially younger ones, feel less "Chinese" today and resent Beijing's growing influence. Those belonging to the "Generation Handover", young citizens under the age of 30, stress their distinct Hong Kong identity. In a recent poll 93,7 percent of respondents said they identify themselves broadly as a "Hong Konger". In 1997 the figure stood at 68 percent.

For the new Chief Executive Carrie Lam it will be difficult to bridge the gap between those who want more autonomy and the pro-Beijing/pro establishment camp. Many of the former group simply regard her as Beijing's representative in Hong Kong.

**MERICs researcher Kristin Shi-Kupfer:** "Hong Kong's future development partially depends on Lam's ability to win the trust of a deeply divided society but also of the government in Beijing. The fact that parts of the society, especially young people, want more democracy will be a continuous challenge to the central government in Beijing."

**Related MERICS analysis:** “Twenty years after handover, Hong Kong struggles for its identity” - Read our latest [blogpost](#) by Tiffany G. Wong.

## CHINA AND THE WORLD

### Regulator tightens grip on companies driving global investment surge

In an attempt to avert risks to China’s financial stability, the Chinese government wants to increase scrutiny of highly leveraged companies that pursue aggressive overseas investment strategies. As the South China Morning Post reported on June 22, the [China Banking and Regulatory Commission \(CBRC\)](#) has instructed several banks to report their exposures to Dalian Wanda Group, Fosun International, Anbang Insurance, HNA Group, and Zhejiang Luosen.

The move is the latest in a number of measures since the end of 2016. They range from regulations to curb risky, speculative investments to tighter capital controls, which have made it more difficult to move money out of the country.

The targeted companies have aggressively pursued high profile, multi-billion USD foreign investments in recent years. Among the most spectacular deals in 2017 were the rise of the HNA Group to the biggest shareholder of Deutsche Bank and the sale of the AC Milan soccer club to Zhejiang Luosen. Anbang has spent 30 billion USD over the past two years, among others for the purchase of New York’s luxury hotel Waldorf Astoria. The insurance group’s chairman [Wu Xiaohui is being questioned](#) in connection with the company’s overseas acquisitions.

Underlining the high priority of the issue before the Party Congress this fall, the CCP leadership decided to supervise overseas investment deals more closely, not only for economic risks. Reporting on the [decision by the Central Leading Group for Comprehensive Reforms under Xi Jinping](#) on June 26, the official Xinhua News Agency stressed the link between outbound investments and national security.

### Chinese financial market receives boost through MSCI inclusion

After three failed attempts, Chinese stocks will be included in the MSCI Emerging Market Index (EMI) in New York. The [world’s biggest index compiler announced on June 21](#) that it will include 222 China Large Cap A-shares by June 18, 2018.

The decision signals China’s growing integration into global financial markets. Following the announcement, the stock market in Shenzhen, where the A-shares are listed, [hit an 18-month high](#).

The inclusion in the MSCI will add Chinese shares to the portfolios of many new investors, since many emerging market funds, which track the MSCI, will purchase Chinese stocks. Observers expect an inflow of between 8 and 18 billion USD.

Most of the 222 stocks are those of large financial and industrial corporations, many of them state-owned. Representation in the MSCI will be limited to companies whose shares are traded as A-shares

in Shanghai and Shenzhen as well as H-shares in Hong Kong and which are accessible to foreign investors via the Stock Connect System. **Chinese A-shares will initially represent 0.73 percent of the EMI** and 0.1 percent of MSCI's world index (ACWI).

The inclusion of Chinese shares in the MSCI is celebrated as a success in China. But many foreign observers have criticized the step as premature, citing growing financial risks and government intervention in China's financial system.

### **China and Iran hold joint naval exercise in Persian Gulf**

A joint drill by Chinese and Iranian warships near the strategic Strait of Hormuz earlier this month highlights the growing involvement of China in the Middle East and its support for Tehran which faces increasing isolation in the region. The exercise on June 18, the second such drill since 2014, included an Iranian warship, **two Chinese destroyers**, a logistics ship and one helicopter. The drill was part of a **PLA Navy** visit to the Middle East.

China and Iran have close economic and political ties, and a large share of Beijing's oil imports from the Middle East pass through the Strait of Hormuz. The naval exercise took place amid heightened tensions in the region following a decision by five Gulf nations, including Iran's main adversary Saudi-Arabia, to cut diplomatic ties with Qatar which they accused of supporting Iran-backed terrorist groups. In addition, the United States has repeatedly accused Iran of harassing US Navy ships in the area and conducted its own joint drill with Qatar a day before the Chinese-Iranian exercise.

### **News in brief**

- **U.S. lists China** among worst human trafficking offenders
- **China accuses** Indian border guards of violating territory
- **Foreign Direct Investment:** China's reform commission publishes new negative list catalogue
- **China removes 27 restrictions** for foreign investment in free-trade zones
- **ECB completes foreign reserves** investment in Chinese renminbi

## **POLITICS, SOCIETY AND MEDIA**

### **Survey: Majority of Chinese oppose taking in refugees from the Middle East**

An overwhelming majority of Chinese internet users do not want the People's Republic to take in refugees from the Middle East. In an **informal** poll, a Weibo user had asked internet users on June 21 whether China should open its doors to refugees – within 24 hours he got 150,000 responses; 97 percent opposed the idea.

Before the poll, rumors had circulated online that China was about to change its refugee policy. These rumors might have been triggered by a series of reports in state-controlled media about China's humanitarian activities in the Middle East. Some people might have interpreted these reports as a sign that China was about to announce a new approach. In addition, the UN High Commissioner for Refugees,

Filippo Grandi, posted an official [statement](#) on Weibo – on June 20, world refugee day – honoring the courage and resilience of refugees and praising those who help them.

After the online poll, the Communist Youth League tried to calm worries among Chinese internet users by posting a statement by the Chinese Foreign Ministry from 2015, explaining that China would provide humanitarian assistance only to the Middle East. The latest developments indicate that the Chinese government is unlikely to change its policy any time soon. According to [UNHCR statistics](#), more than 317,000 refugees and asylum seekers lived in China last year. More than 300,000 of them were of Chinese origin, most of them from Vietnam.

### Fourteen universities accused of “ideological weakness”



Gloomy weather over the East Gate of the Tsinghua University in Shanghai, China. Source: omefrans via flickr

China’s anti-corruption gets involved in supervising the country’s top universities on ideological matters. After an inspection tour, the Central Commission on Discipline Inspection (CCDI) has accused 14 universities of “ideological weakness”. Traditionally, political and ideological supervision of universities is the joint responsibility of the ministry of education and the propaganda department of the Chinese Communist Party (CCP).

The results of the CCDI’s inspection tour to those universities under direct control of the central leadership were published on June 16. The report criticized “soft” and “lax” ideological controls. The inspectors called on the CCP committees at the universities to improve their supervisory work. Especially Sichuan University and Chongqing University came in for criticism. The report said these two universities had failed to grasp the spirit of the speeches of state and party leader Xi Jinping. Observers say, this might

be a sign that the leadership is concerned about a lack of loyalty in those two provinces. Chongqing and Sichuan were strongholds of the disgraced former Politburo members Bo Xilai and Zhou Yongkang respectively.

The decision to include the CCDI in supervising China's top universities fits with developments in recent years. The universities have increasingly become the focus of Xi's campaign to strengthen ideological education. Also, the CCDI has continuously expanded its influence in recent years.

### **Tencent pledges two billion CNY for charity innovation**

The Chinese technology giant **Tencent is investing two billion CNY** (more than 290 million USD) to promote innovation in the charity sector. The company announced its plans at the Chinese Internet Charity Summit that it had sponsored this June. The initiative's aim is to develop communication channels between charities and to generate creative approaches to interacting with the public.

Tencent's motivation is not entirely altruistic: The company and its co-founder Chen Yidan hope to promote the charitable applications of the company's own products. Examples that were highlighted at the conference were virtual reality glasses to observe rare animals, online classes for rural students or free apps to measure air quality.

In his surprisingly political **opening speech at the summit**, Chen called it a task for all of humanity to control technological development and to deal with its negative consequences.

Chen has risen to the ranks of one of China's most generous donors at quick speed. In 2016, he founded the Tencent Foundation as well as his personal Chen Yidan Foundation, which immediately started accepting nominations for the **world's most lucrative education prize**.

China's new Charity Law that was passed last September encourages private entrepreneurs to develop their own charitable activities and to "give back" to society.

### **News in brief**

- **Nobel winner Liu Xiaobo transferred** from jail to hospital with terminal liver cancer
- **Chinese NGO platform reports** slowdown of registrations of foreign NGOs under new law
- **German ambassador** to China demands release of Bishop of Wenzhou

## **ECONOMY, FINANCE AND TECHNOLOGY**

### **China sends confusing signals to German carmakers**

China and Germany still don't see eye to eye on China's plans to introduce a strict quota for electric vehicles as of January 2018. A recently released **second draft of the respective law** was equally tough as the first version and made no mention of a potential compromise to soften or delay the introduction of the quota.

During a prior visit to Germany, Prime Minister Li Keqiang had signaled his willingness to lower the requirements following intense lobbying by German government and industry. German carmakers would not be able to meet such requirements so soon and would therefore risk losing market share in China.

The topic is likely to be part of the discussions during President Xi Jinping's state visit to Germany ahead of the G20 summit in Hamburg next week.

**Jost Wübbeke, Head of Program Economy and Technology:** „There is still room for a solution. But the ongoing controversy shows that China is a tough negotiating partner on industrial policy – and we have to expect that Chinese policymakers won't make concessions without getting something in return.“

### **Central bank governor warns of weakness in financial sector**

China's central bank governor **Zhou Xiaochuan has advocated** opening the country's financial sector to more foreign competition. Protecting domestic firms would lead to „laziness“ and „low standards,“ Zhou said on June 20 at the annual Lujiazui Forum in Shanghai.

Zhou's statement signals that foreign financial institutions may get better access to China's financial market, which has remained largely closed. Sixteen years after China's accession to the WTO, the market share of foreign banks is still only around two percent.

In 15 years as head of the People's Bank of China under three different Chinese presidents, Zhou has taken steps towards opening China's financial sector, including interest rate liberalization. He is also thought to be an advocate of capital account liberalization.

China's financial system is dominated by highly leveraged state-owned banks. Concerned with financial stability, the central bank is trying to introduce stricter standards in the banking sector. At the same time, it also has to avoid a sudden shortage of liquidity, which would negatively impact growth.

### **News in brief**

- **China plans** heavy investment in 5G infrastructure
- **China's state grid** buys stake in Greek nation power operator
- **Audit report reveals** inflated SOE profits

## **THE EUROPEAN VIEW**

### **Greece blocks EU statement on China at UN Human Rights Council**

Greece has blocked a European Union statement at the United Nations criticizing China's human rights record. The EU was due to make its statement on June 15 at the UN Human Rights Council in Geneva but failed to win the necessary agreement of all 28 EU member states.

It's the first time the EU has failed to make its statement at the UN's top human rights body. An **official with the Greek foreign ministry** called the EU statement "unproductive criticism". Talks with China outside the UN framework were a better avenue for discussions, he said.

The impasse is a blow to Europe's credibility as a defender of human rights. The divisions within the EU also point to China's growing economic influence that makes countries like Greece wary of criticizing Beijing.

Greece is courting Chinese trade and investment amid pressure from its international creditors and European partners. China, for its turn, sees Greek ports as key to its Belt and Road Initiative (BRI), a network of transport links across Asia, Africa and Europe. Last year, China's largest shipping company, COSCO, bought a majority stake in the Greek port of Piraeus. Other infrastructure projects **with China** are in the pipeline.

## MAD MERIX

### Anyone for "Stir-fried Wikipedia"?

If you never ordered "roasted husband", "confused pizza" or "stir-fried Wikipedia", you better hurry up before it's too late. China's legendary Chinglish translations will be replaced from December by standardized English texts and signs.

Hilarious, awkward, and confusing translations of restaurant menus and public signs have amused overseas visitors to China for decades but the Chinese authorities, it seems, have a very different sense of humor. They worry that some words and expressions are offensive and could tarnish China's image. The General Office of Quality Supervision, Inspection and Quarantine has therefore issued **translation guidelines**. The new policy cautions especially against direct translations which have often been blamed for oddities. Beijing's "Park of Ethnic Minorities", for instance, was once translated as "Racist Park".

Whether the new guidelines are going to be effective, remains to be seen. China has for years tried to fix mistranslated signs. Efforts were redoubled before the 2008 Summer Olympics, but results were mixed. Before the next big international sporting event, the Winter Olympics 2022, the authorities have their work cut out to get rid of oddities such as "hand grenade" for a fire extinguisher. Another memorable example was a well-intentioned sign at a major Beijing road cautioning people "to take notice of safe; the slippery is very crafty".

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