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METRIX

1,000,000,000 USD

UBS had to forego the advisory fee on a bond sale totaling up to **one billion USD** after China Railway Construction Corporation (CRCC) terminated the Swiss bank's mandate. A UBS economist had blamed a rise in Chinese consumer prices on African swine fever which is ravaging the country's swine herds. “Does this matter?” the economist asked in a report, only to conclude: “It matters if you are a Chinese pig. It matters if you like eating pork in China. It does not really matter to the rest of the world.”

TOPIC OF THE WEEK: HISTORIC PROTESTS IN HONG KONG

Millions protest against the government's extradition plans

Hong Kong has seen dramatic scenes for several weeks as millions of people have repeatedly gathered for noisy demonstrations against government plans to ease extradition to Mainland China. Protestors forced Hong Kong's Chief Executive Carrie Lam to shelve two controversial extradition bills and, more remarkably, to **apologize to the city's inhabitants**. "I've still got much to learn and do better in balancing diverse interests," she said, acknowledging the protests were a reaction to government decisions.

But her opponents have shown themselves unimpressed. **Street protests continue** – and have even begun to escalate. More than 80 people have been injured and about **30 temporarily arrested** for various crimes. **Lam has described the protests as a "riot"**, which means demonstrators can face prison sentences of several years if convicted. But, in view of ongoing protests, Hong Kong's Chief Executive also signaled leniency: Only protestors using violence against police officers will face rioting charges.

The protests are the largest in the history of the former British Crown Colony, which was returned to the People's Republic of China almost exactly 22 years ago, on 1 July 1997. The protesters are against legal changes that would allow people suspected of committing crimes in China to be extradited to the mainland. Young Hong Kongers in particular see the move as a sign that the full integration of Hong Kong into the People's Republic – officially set for 2047 – is in reality already well underway.

The people of Hong Kong are not only worried about their freedom. The city's economy could suffer should the Chinese government's influence increase. Some of the financial center's **richer citizens have started shifting some of their wealth abroad** over concerns that Chinese courts could misuse amended extradition rules to instruct Hong Kong's prosecutors to seize assets. As the bulk of protestors are younger citizens, the Chinese government should brace for resistance to continue in the future.

To elude official surveillance via cameras, social media and mobile communications, the **protestors have developed special tactics**. Demonstrations are organized in a decentralized way, often via encrypted messaging apps like Telegram. On 13 June, as protestors again took to the streets of Hong Kong, the service was targeted and temporarily **incapacitated by a computer network on the Chinese mainland**.

Beijing continues to support the Hong Kong leadership. Chinese party-state media have repeatedly underlined their support for Lam and legal changes, needed to close loopholes used by criminals and to fight corruption and illegal business practices. English-speaking Chinese media have cited broad support for the law in Hong Kong – and said young demonstrators are being misled by the West.

Media in mainland China hardly report about the protests and **play down their scale**. Online media are currently subject to particularly strict censorship – any user who makes even the slightest reference to the protests on social media must expect their account to be closed in swift and decisive reaction.

MERICS expert Mareike Ohlberg: "The size and duration of the demonstrations show that the Hong Kong government cannot simply act as Beijing's henchman without this having negative consequences – both in the city itself, but also internationally".

CHINA AND THE WORLD

Xi seeks to shore up position at Central Asian summits

Under pressure through trade and technology disputes with the United States, Chinese President Xi Jinping used a trip to Russia and a series of Central Asian summits in the first half of June to rally governments with grievances against the United States and to help Huawei and other Chinese tech companies secure new markets in the wake of Washington banning them from using US technology.

The summits of the Shanghai Cooperation Organization (SCO) in Bishkek from 13-14 June and of the Conference on Interaction and Confidence-Building Measures in Asia (CICA) in Dushanbe from 14-15 June saw an ostentatious display of Sino-Russian harmony as Xi Jinping publicly celebrated his birthday with Vladimir Putin. The gatherings also saw Iranian and Turkish leaders fall in with Chinese criticism of US trade policy, and attack Washington's sanctions and stance on Israel. Meanwhile, Kyrgyz president Sooronbay Jeenbekov declared China's re-education camps in Xinjiang an "internal matter".

The SCO summit also saw governments sign a memorandum of understanding about information and communications technology (ICT) cooperation. This followed hard on the heels of Huawei striking a deal to build Russia's first 5G-network with the country's largest carrier MTS during Xi's visit from 5-7 June. Chinese efforts also focused on the lucrative market of new SCO member India, where public debates about the Chinese IT giant have proved much less critical than in the US and Europe.

UN counter terrorism chief under fire for trip to Xinjiang

A senior UN counter-terrorism official has drawn criticism for visiting Xinjiang. Vladimir Voronkov visited the autonomous province for several days. In a statement he said he had briefed Chinese officials on implementing the United Nation's counter-terrorism strategy. The so-called "vocational education centers" for Uighurs and other Muslim minorities were not mentioned by Voronkov.

International critics accuse China of massive human rights violations for running re-education and detention camps in Xinjiang. China says they are part of counter-terrorism efforts. Some fear that Voronkov's visit and statement may be viewed as UN support for and legitimization of China's position on this issue. The Russian diplomat is the highest-ranking UN official to visit Xinjiang in the recent past.

At a meeting with Chinese Foreign Minister Wang Yi in April, UN Secretary General António Guterres spoke up for the Uyghurs. Michelle Bachelet, the UN's High Commissioner for Human Rights, has been denied the right to visit Xinjiang multiple times. Chen Xu, China's ambassador to the UN, explained that Beijing and Bachelet's office still hoped "to define a time which is convenient to both sides" for a trip.

News in brief

- **Trade conflict:** Xi and Trump will meet amid stalled talks
- **North Korea:** Xi Jinping to make first state visit since in office
- **EU-China:** Negotiations on bilateral investment treaty in the 21st round

- **South China Sea:** Philippines accuse Chinese vessel of sinking Philippines boat

POLITICS, SOCIETY AND MEDIA

State Council announces new measures for social credit system

China's Premier Li Keqiang used the latest State Council executive meeting to announce new market supervision mechanisms for enterprises as part of China's expanding social-credit framework. As new regulations are usually announced on a rolling basis, the high-level announcement marked a gear change in the control of enterprises.

The **Chinese government** said it would add new offenses like deceptive advertisement and unsafe products to its blacklist system for companies and conduct more random inspections. Li asked all departments to wield the "sharp sword" of joint punishments. This means offenders will be sanctioned by all relevant governmental agencies, significantly increasing the severity of punishments. Regulatory agencies were also instructed to increase cross-departmental exchange of information and use big data and other technologies for early detection and punishment of untrustworthy behavior.

By its own account, China has since 2014 established the **biggest credit rating system** in the world. It covers 990 million individuals and 25.91 million enterprises and organizations, including foreign enterprises and NGO's. The new measures show that the focus of the Chinese government is not only on the regulation and direction of individuals, but that it considers the conduct of companies at least as important. China's economy is straining under structural adjustments and the ongoing trade dispute with the US.

MERICS analysis: **Central Planning, local experiments: the complex implementation of China's Social Credit System**, MERICS China Monitor by Mareike Ohlberg, Shazeda Ahmed and Bertram Lang.

„Technical issues” hamper Chinese movie premieres

Officials blamed "technical issues" for cancelling the screening of the opening movie of the Shanghai Film Festival, "The Eight Hundred". The movie came a day ahead of the **80 million-USD movie's** world premiere on 15 June and caused **surprise and anger**. The Chinese film had been highly anticipated.

Produced by the established Huayi Brothers Media studio, the movie tells the story of Chinese soldiers fighting the Japanese in Shanghai in 1937. The Sino-Japanese War chimes with the 70th anniversary of the founding of the People's Republic of China later this year. But censors reportedly took issue with the image of heroic Chinese soldiers fighting under the Nationalist Party flag. To this day, the flag of the Communist Party's enemy in China's civil war is the national flag of Taiwan.

"Technical issues" have become shorthand for censorship concerns – they were used to explain other short-notice cancellations this year. The movie "One Second" by director Zhang Yimou, for example,

was pulled from the Berlin Film Festival **three days ahead** of its premiere, and TV-drama “Novoland”, hailed as China’s answer to “Game of Thrones”, was **cancelled 20 minutes** before its online premiere.

News in brief

- **Cyber control:** China to shut down finance news app
- **Social media:** Blogger complains intellectual debate is dying on Weibo
- **Religion:** China frees pastor's wife six months after arrest
- **University:** Math's question in Chinese entrance exam stumps US teacher

ECONOMY, FINANCE AND TECHNOLOGY

London-Shanghai Stock Connect opens

Companies listed in Shanghai have since Monday been able to raise capital on the London Stock Exchange using the **London-Shanghai Stock Connect** scheme. Huatai Securities, one of China’s largest brokerages, **inaugurated the system in London by issuing** 1.54 billion USD in global depositary receipts, GDRs or bank certificates backed by shares. UK-listed companies can sell GDRs in Shanghai, although investors there must have three million RMB in capital to buy securities backed by foreign assets. Beijing wants to give its companies access to foreign capital, but to limit Chinese capital flowing abroad.

UK Chancellor Philip Hammond **called the initiative “groundbreaking”** as investors in London can now have direct access to Chinese stock-listed companies – and Chinese investors to London-listed stocks. Shanghai-Hong Kong Stock Connect opened in 2014, although this allows cross-boundary trading of shares, not just bank certificates. Given the use of GDRs, the London link mirrors that with New York. So-called American depositary receipts backed by Chinese stocks have long been traded on the NYSE.

MERICS analysis: **China's caution about loosening cross-border capital flows: Fear of financial instability will continue to slow the liberalization of the capital account**, MERICS China Monitor by Max J. Zenglein and Max Kärnfelt.

Growth of industrial output lowest in 17 years

Growth of China’s industrial output slowed to five percent in May, down from 5.4 percent in April and 8.5 percent in March. Data **published by the National Bureau of Statistics (NBS)** showed May’s was the lowest increase in industrial production since February 2002. Output growth in the automobile, medical products, and computer equipment sectors slowed sharply, while mining output grew.

An NBS spokesman said at a press conference in Beijing last Friday that a month of volatile economic data was “normal” and urged people to focus on long term economic trends. However, following a decade of double-digit growth, industrial output growth has been gradually slowing since 2014.

According to analysts, recent growth was lower because of weaker domestic demand. Anticipating improvements in relations with the United States, Beijing had reined in government stimulus in April. But trade talks stalled in May and the United States added tariffs on Chinese goods worth an annual 200 billion USD. China retaliated by adding tariffs on U.S. goods worth 60 billion USD.

News in brief

- **Tariffs:** US Chamber of Commerce asks Trump to reverse course
- **Telecoms:** Huawei slashes revenue forecast amid troubles with US
- **Currency:** PBOC to issue RMB bills in Hong Kong at the end of June
- **Manufacturing:** Samsung shifts smartphone production out of China

THE EUROPEAN VIEW

EU countries put lives in danger by granting Chinese extradition requests

Spain on 7 June extradited 94 Taiwanese suspected of telecoms fraud to China, ignoring concerns about a criminal justice system that lacks any guarantee of a fair trial and in which the use of torture is widespread. This is only the latest in a series of decisions in which European governments have appeared unmoved by the possibility of suspects' human rights being violated.

Spanish police in 2016 arrested 237 people, most from Taiwan and some from China, under suspicion of telecoms fraud and swindling Chinese citizens out of millions of euros. China requested the extradition under an extradition treaty that Madrid and Beijing signed in 2006. Spain is reported to have deported a total of 225 suspects from this group so far – among them 218 people from Taiwan.

Beijing has praised Spain for its adherence to the one-China principle, but Madrid is not the only European capital to have underestimated China's law enforcement practices and their threat to human rights. The Xinjiang-based family of a Uighur refugee who lives in Belgium disappeared after a visa dispute in the Belgian Embassy in Beijing led to diplomats calling the Chinese police for help.

Despite Chinese human rights violations - including forced disappearances, torture and extra-judicial detentions - EU countries underestimate that collaborating with Chinese law enforcement violates Europe's human rights commitments. Germany in 2018 was forced to suspend the extradition of Uighurs to China after a Uighur asylum-seeker was wrongfully deported to China and disappeared.

But some European countries are now considering whether to end law-enforcement cooperation with China. Germany will re-examine its extradition agreement with Hong Kong if the island adopts a planned law to ease extradition to mainland China. Protesters in Hong Kong fear Beijing may use Hong Kong's planned rules to intensify China's crackdown on political dissidents and civil-rights activists. Also, Sweden's Supreme Court is considering whether a former Chinese official accused of embezzlement can be deported to stand trial in China.

Besides Spain, **several EU countries have extradition treaties** with China, including Italy, Portugal, Romania, Lithuania, Bulgaria and France. Even more EU countries have extradition pacts with Hong Kong, which means that suspects transferred from Europe could later face re-extradition to the mainland if the new law is approved.

MERICS analysis: China's global law enforcement drive – The need for a European response, MERICS China Monitor by Thomas Eder et al.

PROFILE: Carrie Lam

Is she “a walking disaster”? Hong Kong's Chief Executive at the center of a political storm

When Carrie Lam took over as Hong Kong's head of government almost exactly two years ago, she was not particularly popular with the citizens of the bustling city on the South China Sea. She took the oath of office in the presence of Chinese President Xi Jinping, signaling a proximity to the government in Beijing which was not well received by many residents. Mired in seemingly never-ending protests against two controversial changes to Hong Kong's extradition rules, Lam now finds herself dealing with the biggest crisis of her – up until now - smooth rise in the Special Administrative Zone's bureaucracy.

62-year-old Lam Cheng Yuet-ngor (林郑月娥) has served Hong Kong's administration for almost 40 years in more than **20 different positions**. She headed the former British Crown Colony's London business and trade office from 2004 to 2006 - and her husband still lives in the British capital today

Raised a Catholic, **Lam studied sociology** and became bureaucrat - reputedly a China-friendly one. When she was chosen as the fifth Chief Executive in 2017, politically astute citizens of Hong Kong saw this as a signal that the China's Communist Party would try to undermine the autonomy promised two decades ago when the UK handed the territory back to China. Nathan Law, one of the leaders of the 2014 “umbrella movement” for more democracy, at the time called Lam's election “a nightmare”.

As a politician, **Lam is known as a hard worker and a tough negotiator**. But she seems to have been oblivious to the possibility of fierce reactions to her plans to ease extradition from Hong Kong to China. Only when millions of protesting citizens did not calm down, only after dozens of people had been injured or arrested, did she appear to give the issue deeper thought. In an unusual public appearance, she admitted: “I've still got much to learn and do in better balancing diverse interests.” She acknowledged the protests were a reaction to her government's decisions and offered her apologies.

Whether such public pleas can save Carrie Lam's career remains to be seen – even if Beijing still backs her for now. It is hard to see how Lam can make good on her promise to balance the interests of Beijing on the one hand with those of the protesting citizens of Hong Kong on the other. The protestors do not trust her promise to shelve the controversial legal amendments. Opposition politician Emily Lau noted Lam had not really responded to any demand. **“She is a walking disaster.”**

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