Problems brewing?

Do senior management changes at Kuka signal discord between the German robotics firm and its Chinese owner Midea?
Last November – two years after its $5 billion takeover by Chinese electrical appliance maker Midea – Kuka’s chief executive told reporters in Shanghai that the German robotics firm was well positioned to become the leading player in industrial automation in China, with its parent group’s help.

But Till Reuter wasn’t destined to deliver on his prediction: a few weeks later he was ousted by his Chinese bosses.

When Midea made its bid for Kuka in 2016 German politicians worried about giving up a prized asset to an ambitious rival in the robot world. They were persuaded to wave the bid through, after assurances that business would continue largely as usual. Kuka’s main investors also lobbied for the takeover to happen, saying it would deliver significant new sales in the fast-growing Chinese market.

A little more than two years after Midea took control, both of those forecasts don’t look quite as reliable. The more cynical commentators have blamed post-merger rifts for tainting what was once heralded as a trophy acquisition. But other analysts diagnose it as more a case of short-term turbulence in a robotics market derailed by China’s trade and tech spat with the US.

What management changes have there been?
Kuka’s latest China CEO James Wang Jiangbing left the company at the end of June, although local reporters didn’t specify if he was sacked. Recruited by Reuter, Wang knew German corporate culture well, having worked for firms including Siemens and Roland Berger. He was promoted to head Kuka’s 1,500 staff in China last August, but the employees are now set to get their fourth new China boss since the takeover in 2016. The appointment will be made directly by Midea this time, bypassing Kuka’s German head office in Augsburg, says Jiemen, citing company insiders.

Are there also personnel changes at the head office in Augsburg?
China’s state-run newspapers hyped up the German firm’s coupling with Midea as one of the most promising matches of the slew of
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acquisitions made by Chinese firms overseas in the last couple of years (see WiC385). International media outlets were more cautious, which seems to have been wise in the wake of Reuter’s surprise departure last year.

After 10 years as an M&A banker, Reuter arrived as Kuka’s boss in 2009. He and an investment partner had amassed a 29% stake and the shareholding turned out to be pivotal when Midea came knocking in 2016.

Despite concern from German politicians (see WiC326), Reuter thought the bid premium was too good to turn down. He described the deal as offering “the best of both worlds”—German expertise and Chinese partnership.

Kuka was already active in China when Midea showed interest: Reuter was in charge when it opened its first plant there in 2013 and revenues there had grown nearly tenfold from 2009 to almost €500 million ($563 million) in 2017.

However, in an interview with the Financial Times that summer, Reuter said that his goal was growing Kuka’s business faster, and in mid-2017 he was still confident the China market was the means.

Back then there were few indications that he would soon be gone—in fact Kuka had extended Reuter’s contract as CEO till 2022.

Then came the shake-up: not just for him, but for five other senior managers, who followed him out of the door.

Peter Mohnen, Kuka’s CFO, has been appointed as interim CEO until a long-term replacement is found.

Why the management reshuffle?
Kuka’s recent performance had been disappointing. Sales fell in the first three quarters of 2018, dragged down by weaker demand for six-axle robots, one of its core products.

Midea’s founder: He Xiangjian

Plans for stronger sales to new customers in China didn’t materialise as hoped, and Kuka sales and profits fell substantially.

This year has started better, with an 8% increase in profit in the first quarter on slightly declining revenues. But the weaker-than-expected performance has been reflected in Kuka’s share price: its market capitalisation had dropped to about €1.8 billion as of this week, significantly less than half the price that Midea paid for a controlling stake three years ago.

For Kuka’s overlords at Midea, a more fundamental concern is the unravelling of the logic that drove the deal in the first place.

Part of the rationale for the takeover was that Kuka would benefit from a local partner in China, helping it to challenge Japanese rivals like FANUC and Yaskawa Electric, and the Swiss giant ABB.

But progress here has been limited. “Over the past two or three years, Kuka’s sales in China have been lagging behind rivals such as FANUC and Yaskawa. Within the Big Four league, the gap between Kuka and the leaders has been widening,” one industry expert told Jiemian.

Why a case of strife than synergy?

Faced by the slump in sales, interim CEO Mohnen announced plans to cut costs by €300 million before 2021, with a third of the savings expected this year.

The downsizing has already seen 150 jobs disappear from Kuka’s payroll of 14,000, with 350 more anticipated to go this year. That’s making the German labour unions restless—when Midea was pursuing Kuka it promised to maintain staffing numbers to 2023.

Midea also committed to maintaining Kuka’s existing strategy and the independence of its executive board, which is made up of its CEO and the CFO.

Midea’s voice is loudest on the 11-person supervisory board, where the Chinese firm has three representatives (six members are elected by Kuka employees).

Midea said in its annual report last year that the relationship between its supervisory and executive boards has been “constructive”.

However, the FT reported last year that Reuter had clashed with Midea’s CEO Andy Gu over Kuka’s strategy in China and that his departure was a reflection of the fact that the German firm is now “firmly in Chinese hands”.

Handelsblatt has looked further back for the reasons for Kuka’s recent malaise, reckoning that both sides spent too much of their time overcoming the political resistance to the 2016 takeover.

It claims this diverted attention from the operational challenges Kuka faced as it plotted its next growth phase. These less public issues have been harder to resolve, the German newspaper added, because of a “cultural clash” with the new owners over the kind of robots that it is producing.

Midea executives have been critical of Kuka technology for being “overpriced and over-complicated”, with delivery delays adding more woes, Handelsblatt said.
Where does Midea see the future?
The sense is that Midea wants to capitalise on Kuka’s expertise to reach deeper into healthcare and warehouse automation, and to create a supply chain in smart appliances and internet-of-things (IoT) devices that profits on its pre-existing leadership in products like air conditioners and washing machines.

Part of that strategy has seen the launch of a new joint venture in Foshan: a Rmb10 billion ($1.45 billion) factory, where the German firm will develop a range of smaller and simpler robots. One of the hopes is that the switch will wean Kuka off some of its reliance on the automobile market, the segment from which it has traditionally derived the bulk of its revenue.

But advancing into new areas may also put more pressure on the differences in management style between the two companies, something that Wilfried Eberhardt, Kuka’s marketing boss, hinted at during a panel discussion at a conference in Munich last year.

“Very often we Germans tend to take a very long term view, with deep analysis, but we can spend too much time doing that,” he acknowledged. “But when you go to China, they just do it, and you can see the advantages. That brings a lot of speed. We have to learn from them that speed and change is not a bad thing. It’s good. It’s just that sometimes it’s not easy and not very comfortable.”

Isn’t the robotics industry slowing down more broadly?
It’s certainly true that the trade and tech rows between China and the US have sapped the investment appetites of many of the bigger manufacturers.

Demand for industrial robotics in China hasn’t been as strong over the last 18 months as proponents had hoped either. The Chinese have been the world’s biggest buyer of industrial robots since 2013 and about 130,000 robots were sold there last year, according to the International Federation of Robotics (IFR). But that figure is nearly a fifth lower than the IFR’s earlier projections and represented a 3.6% year-on-year drop in sales.

That was the first annual decline since 2009, following five consecutive years of double-digit growth.

Demand for industrial automation has been diluted by the struggles of some of the sector’s key clients: notably the carmakers and 3C manufacturers (computers, communications and consumer electronics).

In 2018, car sales in China fell for the first time in 28 years. About half of Kuka’s sales of industrial robots and related manufacturing systems are to automotive clients, HSBC research says.

Its rivals have felt some of the impact as well: both FANUC and Yaskawa reported a drop in 2018 revenues and both blamed sluggish demand from China for the decline.

Longer-term, the prospects look better for Kuka?
Mohnen described Kuka’s situation as “a ship in stormy water” at the shareholder meeting in May. But he has been trying to play down the suggestions of tensions between the firm’s supervisory and executive boards. The company also talked up the launch of an “inter-culturally experienced” taskforce as a conduit for driving change.

Of course, all the major robot makers have high expectations for sales in China, which is home to about 70% of the world’s electronics production, as well as a growing proportion of its automotive plants, thanks to its status as the world’s largest car market.

Both of those industries are major buyers of industrial automation. Optimists add too that robot density ratios in China trail those of US, and a seventh of South Korea’s, Bloomberg says.
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That discrepancy is also why Beijing’s policymakers are pushing for a homegrown robotics sector as one of the priorities of the Made in China 2025 plan (a government-guided programme that continues to advance, even though it is no longer being trumpeted in the media because of the tensions with Washington).

Beijing’s stance is that it wants China to be the major supplier of the world’s industrial robots, not just the leading customer for them, and Kuka’s new factory in Foshan will address some of that mismatch, churning out at least 75,000 more robots a year by 2024. ABB also started construction of a new plant in Shanghai this month with a projected annual output of 100,000 robots when it is finished next year.

The more immediate challenge for Kuka executives is how to reboot sales growth by working with Midea on new opportunities, while also operating largely independently of Chinese control.

As one of the more high-profile acquisitions by a Chinese firm, the Kuka takeover is also going to serve as a yardstick for future M&A, especially for Chinese firms looking to buy their way into more advanced technologies.

German broadcaster Deutsche Welle believes that the appointment of the next Kuka boss will be scrutinised closely in Berlin too. “A China-centric appointment to replace Reuter will likely confirm the worst fears that critics of the deal in Germany had,” it warned.

Despite the challenges, the industrial logic of the original deal still seems to hold, especially if Kuka’s expertise can be brought to bear in sectors where Midea delivers the market access.

Finding the right mix between the two companies is clearly going to be crucial, with Handelsblatt predicting that the interim chief executive could make the role permanent if Mohnen is better able to bring the different teams in Augsburg and Foshan together.

“Given the controversy surrounding the takeover, Mohnen has to strike a particularly delicate balance. On the one hand, he must improve results and keep his Chinese bosses happy. But he also needs to convince staff and politicians in Germany that Kuka is still properly independent,” the newspaper said.

Rocket fuel, for investors too

When John Phelan visited Beijing in 1986, the New York Stock Exchange boss was presented with a share certificate by Deng Xiaoping.

The issuer, Feilo Acoustic, was one of eight companies then allowed to sell shares to the public.

In January 1992, three months after trading started on the Shanghai Stock Exchange, the loudspeaker firm’s share price skyrocketed to Rmb3.550 a share. Another firm that made vacuum tubes saw its share price surge to Rmb2.587 shortly afterwards.

No other A-share firm had surpassed the stock prices of these (admittedly highly illiquid) stocks. But a landmark was reached this month when Kweichow Moutai crossed the Rmb1,000 per share threshold (Rmb100 a share is a rare enough feat for A-shares).

China’s best known liquor maker climbed to Rmb1,029.63 at one point on July 1, and brokerages were quick to celebrate “the first Rmb1,000 stock”. That claim was technically incorrect, given the 1992 price moves. But the value that Moutai has created is a lot more real: its market capitalisation is now more than Rmb1.26 trillion ($183 billion), or more than half the GDP of its home province Guizhou (historically one of the poorest parts of China).

Anyone daring to buy Moutai shares in early 2013—a time of crisis for the company when Chinese leader Xi Jinping’s anti-corruption campaign was in full swing—will be sitting on a tenfold return. The upswing also means that Moutai is now the second most valuable A-share firm, behind only ICBC, the state-owned banking heavyweight.

Moutai’s share price has retreated about 2% since hitting the Rmb1,000 threshold. However, it remains a favourite with overseas shareholders, who have been impressed by its capacity to raise prices on the best of its baijiu brands year after year.

For a backgrounder on this premium alcoholic beverage see WiC455.
US Commerce Secretary Wilbur Ross confirmed that American firms could sell technology to Chinese telecom equipment maker Huawei as long as the sales don’t put national security at risk. But Huawei stays on the Commerce Department’s “entity list” he said on Tuesday, meaning that firms that want to sell Huawei US-sourced technology must first apply for a licence. The department will review these applications with a “presumption of denial,” he said. The Wall Street Journal later reported Treasury Secretary Steve Mnuchin had urged US firms to seek licences to sell to Huawei.

China Three Gorges Corporation, the operator of the massive Three Gorges dam has insisted that “distortions” in the dam’s shape are normal and that safety hasn’t been compromised. “With distortions, the dam body is in an elastic state,” it said in a statement. “All data are within the design limits... All structures are operating normally, and the project is operating safely and reliably.” Satellite images appeared on social media last week purporting to show kinks in parts of the dam’s wall. Newspapers like the Global Times soon denounced the reports as the work of ‘anti-China forces’.

Car sales grew to retail buyers in June, the first monthly increase since last May. Sales of sedans, sport utility vehicles, minivans and multipurpose vehicles rose 4.9% year on year, according to the China Passenger Car Association. Analysts have cautioned that the better performance was prompted by dealers offering deep discounts to clear stock ahead of rule changes on emission standards. In fact the increase in sales in June could result in an even weaker market in the months ahead, they warned.

China’s venture capital boom has slowed markedly after a five-year surge. Deals plummeted in the second quarter, with investors worried by the uncertainty of the trade row and high valuations for start-ups, Bloomberg reports. Total investment fell 77% to $9.4 billion in the second quarter from a year earlier, according to market research firm Preqin. The sector’s peak was mid-2018, with $41.3 billion invested in the second quarter. That included a $14 billion round for digital payments giant Ant Financial. The largest venture deal in the second quarter this year was a $1 billion investment in JD Health, an affiliate of e-commerce firm JD.com.

China’s best-selling sportswear brand Anta Sports has rejected allegations from US short-seller Muddy Waters that it secretly controlled some of its main distributors as a way of boosting its margins. Muddy Waters followed this up with claims that Anta’s management stripped the listed company of its international retail business through a sale to a “straw buyer” who transferred the ownership to a party connected to Anta a few months later. “The Board vigorously denies the allegations regarding the Group’s relevant transactions contained in the Report and considers them to be inaccurate and misleading,” Anta said in the second of two statements it made on Tuesday to counter the claims.
Were it not for regulatory pressure and massive debt, acquisitive conglomerates like Anbang and HNA would very likely still be clinging to their trophy assets around the world – as opposed to letting them go in fire sales. Their prime assets such as the upscale hospitality chain Radisson or the world-famous Waldorf Astoria can be hard to come by. But why is Mengniu, one of the top two dairy companies in China and under no comparable constraints, also shedding one of its most promising businesses?

The Hohhot-based firm said early this month that it would be selling its entire stake, or 51% interest, in Shijiazhuang Junlebao, a yogurt drink and infant formula maker, for Rmb4 billion ($581 million).

Additionally Mengniu will receive a special cash dividend of $568 million. The proceeds constitute nearly 10 times what it paid for control of the Hebei-based company in 2010.

And yet, some commentators believe Junlebao is worth more. “The return on investment over a decade is likely to be above 10 times. And Junlebao’s sales could probably reach Rmb15 billion in 2019, and Rmb20 billion in 2020. If it goes public without a hitch, the valuation of this stake should be higher. Rmb4 billion for a 51% interest – that really comes across as a bit low,” claimed Shanghai-based International Financial News.

In a filing with the Hong Kong stock exchange, Mengniu explained that Junlebao “has been operating relatively independently under its own brand in the past few years” and there have been “limited synergies” between the pair.

Given the “differences in product positioning”, the disposal was described as being in line with the company’s strategy “to continually focus on premium dairy products”.

Mengniu, in which state-owned COFCO Group has a 20% stake, also claimed the move could help facilitate future investment opportunities, as it looks to improve the performance of its premium product range, which it says has relatively high growth and margin prospects.

Established in 1995 by Wei Lihua, a Hebei native, Junlebao started out making a yogurt drink. That was a market segment overlooked by the major dairy companies, which were more focused on baby formula at the time.

Taking this alternate route helped Junlebao bypass the melamine scandal that skewered the milk powder makers in 2008, even though it had received investment from Sanlu and promoted some of its products under the subsequently stigmatised brand (see WiC6).

After Sanlu went bankrupt, Junlebao bought back all of its holding (around 17%) and then received Rmb469 million from new investor Mengniu for a controlling stake. Offering one of the largest manufacturing facilities in northern China, Junlebao helped to boost Mengniu’s market share in China’s yogurt market to above 30%, according to Beijing-based Economic View.

Under Mengniu’s direction, Junlebao also grew rapidly. Its annual sales reached Rmb13 billion last
year, versus Rmb1.26 billion in 2009, according to Sina.com.

Apart from benefitting from Mengniu’s distribution network, Junlebao tapped into the rising popularity of yogurt drinks in general in China, where sales have surged by at least a fifth each year since 2014, even surpassing fresh milk sales in 2017, according to Mintel.

Another growth engine was a successful diversification into infant formula, where sales more than doubled last year, making up 38% of its total revenue.

“Letting go of Junlebao equates to shaving off tens of billions in revenue from Mengniu’s books, which is not a good news for Mengniu at all, given it is targeting to achieve annual revenues of over a hundred billion by 2020,” Song Liang, a dairy analyst, told Guangdong-based Time Finance.

Last year Mengniu’s turnover hit Rmb69 billion, netting Rmb3.04 billion in profit. To make up for the loss of Junlebao it will have to go shopping, Song believes, noting that the likely candidates could be pasteurised milk manufacturers, well-known dairy brands or government-backed entities upstream in the supply chain.

“Mengniu’s selling of Junlebao can be seen as an equity transfer directed by the government. The rationale is to prepare Junlebao to go public. Junlebao has been making strides in recent years, it’s unlikely that Mengniu took the initiative to forego it,” was also the verdict of Wang Dingmian, another dairy analyst, who spoke to Caixin.

The fact that one of the main buyers of Junlebao is Penghai PE, which is indirectly controlled by Hebei’s State-owned Assets Supervision and Administration Commission, gives credence to Wang’s argument.

Its involvement comes in the wake of a policy document released by the local government in April which outlined plans to revive the dairy industry in Hebei (the definition of ‘revival’ is having at least three industry players with annual revenues of Rmb10 billion in the province; and one with Rmb30 billion in sales, which means being in the top three in China or top 20 in the world).

“An IPO could help improve Junlebao’s competitiveness,” Chen Meng, executive director at Xiangsong Capital, told the Economic Observer. “Although it would still be far from being able to challenge Yili and Mengniu, it will become a threat to many of the other regional or tier-two dairy companies.”

M & A

Week in China
12 July 2019

Mengniu may use the sale proceeds to fund future dairy acquisitions

Last week WiC reported that DJI was taking political flak in the United States on fears that its drones would send confidential footage back to home base in Shenzhen and damage American national security. The world’s leading drone maker has always denied this could happen, but it has also introduced a more secure ‘Government Edition’ range to further reassure its public sector clients.

There was good news on Tuesday when the Chinese dronemaker announced that two of its models intended for government usage had passed tests by the US Department of the Interior (DoI). The drones were tested for 15 months, with no indication that data was being transmitted outside the system, confirming that they were operating as promised, the DoI said.

Executives from DJI were soon celebrating the news, although there were important caveats to the findings, including “that observed test results cannot be extended to future DJI Government Edition software, firmware, or hardware updates”.

That seems to suggest that all future updates to the drone range will have to be verified anew, with the DoI concluding that the costs of all this testing means that Government Edition “does not represent a long term, sustainable solution…”

One step forward, then, but another one back. DJI will be better pleased with another of the DoI’s findings: that there are no American alternatives that are competitive in price and performance to the two types of drone that were tested.
He made his first fortune by thinking small, but these days Evergrande’s founder dreams much bigger. Xu Jiayin (or Hui Ka-yan as he is known in Cantonese) is one of the country’s best known tycoons (see WiC364) after riding Guangdong province’s property boom over the past two decades.

Xu’s innovation was to focus on sales of much smaller apartments that gave him a quicker profit. Today, he ranks third behind Jack Ma and Pony Ma on the Forbes China rich list. However, last year he suffered the largest fall in absolute dollar terms after his net wealth declined $11.7 billion to $30.8 billion.

Xu knows better than anyone that while property got him close to the summit of the wealth rankings it is unlikely to keep him there – as a maturing sector it shows signs of declining returns and more stringent regulation. So now he wants to ride the next government-backed business trend instead: Made in China 2025.

After various attempts at diversification (for instance, into bottled water) Xu seems to have settled on the sector where he wants to focus – electric vehicles (or EVs) – and the bet he is making is an outsized one, even by Chinese standards.

Over the past month, the Guangzhou and Shenyang municipal governments have signed agreements with Evergrande involving a combined investment of Rmb280 billion ($40.9 billion). In both his homebase of Guangzhou and the capital city of Liaoning province, Xu plans to build separate EV and battery plants, plus R&D centres.

In a country where billion dollar figures are often bandied about, it is all too easy to miss just how ambitious some of these ventures actually are. In Xu’s case, the two proposed investments would not only mean a bigger outlay than building the Three Gorges Dam (Rmb203 billion), but also be greater than the second Rmb200 billion capital raising for China’s national IC investment fund (designed to deliver a homegrown semiconductor sector).

Perhaps more appropriately, the sum is also almost four times the amount that Tesla has invested in the EV industry since it was founded in 2003.

The new investment also represents Xu’s second attempt to break into the sector. He initially tried to piggyback on someone else’s vision: fellow tycoon, Jia Yueting, founder of LeEco and a backer of Faraday Future. However, the combination of Xu’s cash and Jia’s vision was not a great success and they acrimoniously parted ways.

In fact, the collapse of Jia’s LeEco empire left him on a debtors’ blacklist in China, and he and Xu ended up in court over Faraday Future. Xu is now Jia’s largest creditor after the two came to an agreement last December, while Jia is trying to resurrect Faraday with investment from video company The9 (in June it signed a Rmb6 billion strategic cooperation agreement with the Hohhot city government in Inner Mongolia).

So for the past year, Xu has been forging a new path on his own, and at the beginning of 2019 he formally created a new group, Evergrande New Energy Power Technology, under Hong Kong-listed Evergrande Health Industry.

The first piece of the jigsaw came last September when Evergrande ploughed Rmb14.5 billion into auto sales and energy group Xinjiang Guanghui, becoming its second largest shareholder.

In many ways, Evergrande’s strategy seems to be modelled on Geely’s approach to creating an automotive powerhouse, i.e. primarily through acquisition. Geely purchased Sweden’s Volvo to get much of the technology that it needed and Evergrande has turned to the same country in its own bid to build a car brand.

In January, it purchased a 51% stake in National Electric Vehicle
(NEV), the lossmaking all-electric successor to Saab, which collapsed at the turn of the decade. That same month, NEV was used to purchase a 20% stake in sports car designer and manufacturer Koenigsegg Automotive for $168 million and in US-based Protean, which produces in-wheel electric motors (see WiC438).

Domestically, Evergrande has spent a further Rmb1.1 billion on a 58% stake in lithium ion battery manufacturer Shanghai CENAT New Energy and purchased another 70% stake in a second in-wheel drive company, TeT Drive, based in Hubei.

In March Xu announced that Evergrande plans to produce a million cars and 50 GwH worth of batteries every year. These targets are hugely ambitious, although the response from local news sites like Jiemian were largely positive. “This is not only a greater investment than other entrepreneurs entering the EV industry but it also shows much clearer determination,” it proclaimed.

More specialised analysis from overseas portals took a different view. EV Bite pointed out that Evergrande’s proposed factory will be bigger than the plants of international giants such as Volkswagen, whose Wolfsburg plant in Germany is currently the world’s largest (VW aims to ramp up output to one million vehicles a year by 2020). Clean Technica warned that many an entrepreneur has been mistaken in their belief that ploughing cash into production will deliver results, predicting that “the car business has made paupers of many entrepreneurs and will do so again”. Breaking Views added that Evergrande’s “hasty diversification could do more damage than a softening real estate cycle”.

Bloomberg calculates that a total of 20 EV manufacturing hubs are under construction in China, with their respective provincial governments believing that they will generate all manner of ancillary industries too. Most of the investment is doomed to fail, the news service thinks, and domestic business magazine Caixin also sounded a note of caution about Evergrande, warning that heavy spending won’t inoculate it against the challenges facing most EV start-ups, as well as the problems specific to its much-publicised entry into the sector.

It goes on to spell them out. Multiple acquisitions like these take time to integrate, it says (and sources within Evergrande are already telling the magazine that there are delays to rolling out the first model). And then there is the question as to whether Xu can even afford it. The parent company, China Evergrande, already has a B1/B+ rating on its finances, a far lower rating than most of the other larger developers, because of the group’s heavy debt load. According to S&P Global Market Intelligence, its total debt to equity ratio stood at 219.6% in December 2018.

That said, Xu has been carrying a huge debt load for many years and has confounded his critics repeatedly in servicing it. Xu’s investment also comes at a time of breathtaking change within China’s auto industry. Tesla will begin producing its mass market Model 3 domestically by the end of the year, and other foreign auto manufacturers are scaling up to be ready to respond to the government’s quotas on EV sales.

And then there are the domestic start-ups which have pitched head-first into a fierce funding and production battle in bid to break into the ranks of tier-one producers. In addition to Evergrande, other corporate giants are hoping to diversify into the sector too. The Financial Times reports that even Huawei is hoping to launch a line of self-driving cars as early as 2021, in partnership with European and Japanese automakers.

The China Association of Auto Manufacturers expects 1.6 million electric cars to be sold domestically this year. On an absolute basis, sales growth has declined since subsidies were phased out in March. In May, they rose just 2% year-on-year to 104,000 vehicles, according to Clean Technica figures.

However, on a relative basis, EV sales are doing much better than cars with gasoline engines. That is a trend that is going to continue because the government wants to prioritise electric cars in a bid to make China a world-beater in the industry. Plug-in vehicles now account for 6.6% of China’s total car sales and a betting man like Xu (a man known to enjoy high-stakes cards) is staking his future on this proportion growing rapidly and Evergrande selling a big chunk of the new EVs.
Healthy state

Mindray vies with Wens as ChiNext’s top dog

It ended a decade-long affair with the US capital markets when it delisted from New York in 2016 and opted to return to China and relist there last year instead.

Now Shenzhen Mindray Bio-Medical Electronics, a medical equipment maker, is vying with Wens Foodstuff Group, a pork producer, to become the largest company on Shenzhen’s ChiNext (see WIC379). Following a steady rise, its market capitalisation crossed Rmb200 billion ($29 billion) as of Wednesday, while Wens’ stood at Rmb203 billion. That makes Mindray’s chairman Li Xiting, an Anhui native with Singapore citizenship, the third richest person in the city-state with a net worth of $8.2 billion.

Mindray’s market value has soared nearly 135% since listing on ChiNext last October. Buoying the bull run was its inclusion in the MSCI index in May, which steered a 55% increase in buying from foreign investors.

Mindray is one of the leaders in China’s medical device industry, which is projected to grow 15-20% annually through to 2023, according to Caixin. Worth around Rmb445 billion in 2017, the sector is expected to race ahead of other segments in China’s booming healthcare market. At present the ratio of drug-to-medical device sales in China is around 3:1, versus 1:1 in the US.

What really tantalises investors is the potential for Mindray to grab market share from foreign players such as Johnson & Johnson, Philips, Siemens and GE, which together used to command at least 70% of China’s medical devices market. As stated in the “Made in China 2025” initiative, Beijing is hoping to increase the use of domestically-produced devices in hospitals to 50% by 2020, and 70% by 2025.

Some local governments are already pursuing the plan. In Sichuan, hospitals have been instructed to use only China-made devices in 15 categories, from respirators to PET-CT scanners, the Financial Times reports. It also noted that multinationals’ share of orthopaedic implants had declined to less than 50% from 80% in the last few years, as state insurance funds, which cover an increasing proportion of medical costs, give preference to local products.

Mindray is benefiting from the trend in a major way. “We have a 50% share in China’s high-end patient monitor market, a cut above Philips,” Li said in a televised interview last month. Having owned the patient monitoring unit of Datascope from the US since 2008, Mindray drew 45% of its income from around 190 countries outside of China as of 2017. But the portion is shrinking as its home market grows at a gallop. “China is currently the fastest growing market with 15% growth every year. It doesn’t make sense if you can’t grow your business in such an environment. In contrast, the US logged only single-digit growth,” added Li.

In the first quarter, Mindray booked a 21% year-on-year increase in revenue to Rmb3.9 billion and a 25% jump in net profit to Rmb1 billion. That represented roughly 28% of what the company made in 2018 for the full year. For comparison, Medtronic, the world’s largest medical device company, recorded annual revenue of nearly $30 billion – equivalent to Rmb206 billion – in 2018.

Founded in 1991, Mindray has gradually developed its business in three areas: life monitoring systems, in-vitro diagnostic equipment and medical imaging gear. It first caught the attention of investors such as US venture capitalist Walden International in 1999, before conducting an initial public offering in New York in 2006.

That early financing provided Mindray with funds to scale up through acquiring companies such as Zonare, a US ultrasound technology developer, and several other domestic peers. Yet it also left the company with rather depressed valuations. Its price-to-earnings ratio in the US had dropped to around 18 times the year before it went private, versus the current 49 times on ChiNext.

Following a new accounting rule that requires goodwill to be booked as an intangible asset, Mindray saw such items as a proportion of its total assets spike from 18% to 48%, rendering it ineligible to list on Shenzhen’s main board. That, however, has helped Mindray become a big fish in ChiNext’s smaller pond. The danger, Bloomberg warns, is its valuation risks getting to bubbly levels.
Tycoon disgraced

Property baron detained in child sex abuse case

Last week, one of the most widely circulated weibo posts began: “Using Shanghai’s garbage-sorting system [for more on this topic, see WiC458], which category does Wang Zhenhua belong to?”

The punchline: “You are insulting the garbage.”

Wang is the founder of Shanghai-listed property developer Seazen Holdings. At his peak he was worth $4.4 billion and was China’s 108th richest man, according to a Forbes’ ranking. However, the comparison with trash began to circulate after Shanghai’s Pudong district police department said the billionaire had been detained on charges of child molestation.

According to local media reports, the news broke earlier this month after a woman filed a complaint to police alleging Wang had abused her nine-year-old daughter in a five-star hotel in Shanghai.

The damning allegations quickly saw a plunge in the shares of three listed companies – including Seazen and the Hong Kong-listed Future Land – that are all connected to Wang. Future Land lost Rmb26 billion – roughly one-third – of its market value in two days. In total, around Rmb30 billion ($4.36 billion) of the corporate trio’s market capitalisation has been wiped out.

After news of Wang’s arrest went viral, Future Land issued a statement to the Hong Kong Stock Exchange declaring that he was being held in police custody for “personal reasons, and he has already been removed as company chairman. His son Wang Xiaosong has been selected as the new executive chairman”.

Meanwhile, Shanghai police said that although Wang had not been formally charged, he was being held under criminal detention.

“Wang, who is a successful businessman, a philanthropist, a national model worker, took children as his plaything. This is so dirty and obscene,” was the denunciation made by the Central Political and Legal Affairs Commission.

Founded in 1993 in Changzhou in Jiangsu province, Future Land ranked eighth among China’s largest developers last year, after the now Shanghai headquarted firm reported Rmb220 billion in contracted sales, up 75% compared with a year earlier.

“Future Land has been the dark horse in the real estate industry in recent years,” reckoned National Business Daily.

“It mainly focuses on the third- and fourth-tier cities and has expanded rapidly. In the eyes of industry insiders, however, Future Land has always been a very low-key but competitive type of company. Starting from a few years ago, it regularly conducted its meetings on the weekends, which led to complaints by the employees.”

According to NBD, the total assets of Future Land rose dramatically in 2018, reaching Rmb303 billion, a year-on-year increase of about 80%, of which Rmb145.6 billion comprised unsold inventories, a year-on-year increase of 91%. That suggests that the inventory surge accounted for 44% of total assets, a statistic that likely reflects trouble finding buyers.

Its inventory data isn’t the only alarming figure. The company may have to pay back as much as Rmb6.3 billion of debt in the second half of this year (including bonds with early redemption provisions), estimates Caixin Weekly.

While Future Land shouldn’t have a problem paying down its short-term debt, the latest scandal will drive up its borrowing costs, which were already relatively high compared with its peers. Its average cost of debt was 6.47% last year, a level more normally paid by third-tier property developers, according to Guosheng Securities.

Meanwhile, images of Wang behind bars were shown in a report this week by state broadcaster CCTV although his face was pixelated.

The Chinese media is already arguing for tough sentencing for Wang if he’s found guilty (he could even face a death sentence).

TMT Post believes that as a chairman of a listed company, and as a well-known public figure, Wang – if convicted – should be given a more punitive sentence than an ordinary citizen. “We also urge the police to investigate the issue thoroughly because it hardly seems like it is Wang’s first offence,” the portal concluded.
Connecting the dots

A three-day conference seeks to raise awareness of the Greater Bay Area

What’s the Greater Bay Area (GBA) and how can I do more business there? That was the basic proposition of HSBC’s GBA Connections conference in late June, where 60 clients from 13 countries came to Hong Kong for two days of presentations and debate, plus a day in-between of company visits to Shenzhen, reached by a 15-minute trip on the bullet train.

The companies hailed from a diverse mix of sectors – among others WiC spoke to the CFO of a British-based firm of architects; the representative of a family investment office in the Middle East; the boss of a semiconductor equipment firm from the US; and the head of a toy licensing business headquartered in Europe. All had an interest in understanding the GBA better, something that HSBC was keen to facilitate. Here’s our review of some of the main themes that came up in discussion.

The GBA: a new concept that is still taking shape

The large majority of attendees had visited Hong Kong on business trips in the past, often several times, but the wider region was new to them as a concept. Broader knowledge of the GBA was still relatively limited: most knew that Shenzhen was a city on the rise and they were aware of Macau as a casino destination, but the eight other cities in the region were largely unknown.

Stuart Tait, HSBC’s head of Commercial Banking in Asia-Pacific, acknowledged the relative novelty of the GBA as a concept in his opening remarks, but he said that HSBC is taking the lead in introducing its clients to what they should see as a major opportunity.

Companies should grab the chance to get in early as the GBA gains altitude, he suggested. He noted that there are 4,500 high-tech companies in Guangdong province, concentrated in the GBA where Shenzhen has already earned a reputation as the Silicon Valley of China.

A later session introduced the building blocks of the plan, including its titling as one of the key strategies of China’s leader Xi Jinping, which means that it will be getting more of a push from policymakers. However, attendees wanted more detail about how things were going to work across the three main jurisdictions (Hong Kong, Macau and mainland China). The speakers predicted that more practical policies will come with time, aligned with the guidelines in the Outline Plan that was published in February. One example was the way that the authorities are starting to subsidise income taxes for people from Macau or Hong Kong coming to work in the GBA’s nine mainland cities – a new measure announced last month that means Hongkongers working across the border would pay 15%, or roughly equivalent to what they would pay in Hong Kong.

Small in size, but bigger in impact

The GBA was described as a relatively small area geographically, but as an economy that’s already the same size as Canada’s. Its contribution to China’s economy is also outsized at 12% of Chinese GDP and 37% of its exports, but with the potential to grow much bigger.

Why was HSBC so confident that this growth is going to happen? In part, it’s down to history, Tait said, highlighting how the GBA has its roots in the Pearl River Delta, the manufacturing zone that powered much of China’s boom in the late 1980s and 1990s. Those 25 years of extraordinary economic achievement largely came about from the bottom up, he added, often from businesses with limited value-add. Imagine what might be achieved through investment in next-generation sectors, plus a more coordinated approach that draws on the skills of the GBA’s different cities.

Politics matters, and other challenges too

The political picture loomed large in the keynote address at the con-
ference, which discussed the implications of Donald Trump’s priorities on the GBA’s prospects, particularly the trade and tech rows between Washington and Beijing. As China’s leading region for exports, and as home to some of its high-tech champions, the GBA is a more-than-interested party in how these disputes are resolved.

Most of the three days were focused on the commercial opportunities in the GBA, although the political backdrop was difficult to disregard completely.

Participants hoped the trade row would soon be resolved, although a timeframe was difficult to pin down. But the tensions are pushing the Chinese to generate more of their growth in their domestic economy, where the GBA will be a key demand driver. They have also intensified the focus on technology and innovation, two areas where the Chinese are determined to get more self-sufficient. Both trends should open new opportunities for trade and investment, it was thought.

Most of the questions on the sidelines of the conference were more about the details of getting things done in the GBA, rather than the bigger-picture politics. Queries included how many driving licences were needed to cross the HK-Zhuhai-Macao Bridge; how companies cope with the different data privacy laws across the region; and how much longer the telecom providers will levy data roaming charges on customers who move about the GBA.

All in all, it was a reminder that the practicalities usually outweigh the politics when businesses are looking for new markets.

Connections matter
All conferences need buzzwords and last week’s gathering was no different.

Wong: views connectivity as key

Connectivity was an early contender for number one spot, with ‘city clusters’ and the ‘one-hour living circle’ getting honourable mentions.

More broadly, presenters described how the density of the 11-city economy was crucial to its future growth, powered by the four ‘core engines’ of Macau, Hong Kong, Guangzhou and Shenzhen.

Simply put, none of the cities in the GBA are too far away from any of their counterparts, with new roads, bridges and railways shrinking distances ever further.

Helen Wong, HSBC’s chief executive for Greater China, made the point in more practical terms, outlining how the region’s connectivity would help companies launch new products. Each and every activity could be completed within not much more than an hour’s radius, she believed, with the GBA bringing together the same skillsets that exist in the US but which are far more dispersed geographically: namely finance (New York), tech (San Francisco), manufacturing (the Midwest) and entertainment (Las Vegas).

“Perhaps the enterprise starts out with research at one of Hong Kong’s universities or science parks. Then it moves on to prototyping one of its new product ideas on a manufacturing line in Shenzhen,” Wong suggested. “The product then comes back to Hong Kong for further refinement before a market-ready version is taken to Dongguan for mass production. The goods are shipped to overseas markets from one of the world-class container ports in Nansha or Shenzhen. Maybe the business starts to do well, so it needs more trade finance, which it sources from Hong Kong. If it really prospects, maybe it does an IPO here too. And when that happens, the management team heads off for a weekend of celebrations in the casino resorts in Macau!”

Later, the founder of a wearable tech brand that makes training devices for musicians explained how he did all of his R&D in Hong Kong but that he crosses into Guangdong to find his manufacturing partners. “I don’t think people realise how straightforward it can be to source components there and find someone to assemble the final product,” he said. “When we started out, we simply researched our potential suppliers on Alibaba, called them up on the phone, and arranged site visits the next day.”

It’s all about technology
Another major theme was how the GBA is at the forefront of technological change. All the usual suspects came up for mention: particularly AI, facial recognition, Big Data and 5G. The spread of social media and the ubiquity of WeChat – Tencent’s messaging app – was also discussed, including a presentation from Tencent’s WeChat Pay on how the payment app was spreading into virtually every consumer-facing sector.

Another startling stat: WeChat now boasts more than a billion active users.
The following day there was feedback from the visits to companies in Shenzhen, including a trip to DJI, the world’s top-selling dronemaker. The overall impressions of Shenzhen's main business districts were good too, with a greener, more open feel than most people had been expecting. Others remarked on a local business culture with greater freedom to test out ideas.

“There seemed to be so much scope for experimentation, much of which would have been strangled by regulation in my home market,” was one comment.

Discussion like this led to the inevitable question of whether the GBA is going to ‘overtake’ Silicon Valley. Shenzhen already has a claim to be the best place to build hardware, it was suggested, although it’s not as competitive in software, where the Californians are still king.

One response was that software expertise isn’t as concentrated in Silicon Valley as it once was, and that places like Florida’s Space Coast, Boston and Austin all have claims to leadership in particular applications. But other delegates took the bait, arguing that Shenzhen would soon be top dog because of the ferocious work ethic in the local workforce, the readily available pool of capital for innovative companies, and the single-minded support of a government that wants the GBA to be a world-beater.

Indeed, the new obsession with tech was even spreading to investors in Hong Kong, who are typically more focused on “surer things” like property, another contributor suggested.

What’s changed is that people have seen the successes of the ‘unicorns’ at companies like Ping An, as well as the new reach of the tech businesses backed by giants such as Tencent (both of which are based in Shenzhen). “The unicorns are key – they are getting everyone interested in tech as an investment,” he argued.

And don’t forget the GBA as a market
Another talking point was how the GBA should be on company checklists as a marketplace, thanks to its 70 million, increasingly better-off consumers.

GDP per capita in the GBA region is now $23,000, more than double China’s national average, and well above that of a middle-income country. That meant that talk of the GBA as a zone for testing out ways of freeing China from the ‘middle income trap’ (countries that lose their competitive edge in exports because of rising wages) was missing the point, it was also suggested. In fact, the GBA has escaped the trap already.

The GBA also offers interesting opportunities for integrating healthcare, particularly between Hong Kong (where many mainlanders often come for specialised treatment and vaccinations) and the major cities across the border. One speaker with a Hong Kong-based firm in the field said its tech-driven approach had seen it manage the healthcare needs of a million people across the GBA, with access to a pool of 600 doctors. It had seen 100% GBA revenue growth in the past two years, he said.

A previous session had focused on one of the main beneficiaries of China’s consumer boom, when one of the early executives at Alibaba talked about how it won the e-commerce wars.

Alibaba isn’t a company based in the GBA, but it was an interesting presentation in outlining how its commercial approach kept changing in pursuit of profit. Nor was it ever a case of simply copying a business model that had worked in the West. Indeed, Alibaba triumphed by doing the opposite, crushing rivals like eBay by tailoring its approach to the local marketplace.

Along similar lines, one of the final sessions looked at the GBAs consumers, and in particular its millennials, a group that is willing to spend more of its discretionary income.

Participants discussed some of the similarities with the same generation in other countries, but recognised a greater preference for shopping online in China, and an almost universal expectation to be able to pay for goods and services digitally.

Work-life balance was also mentioned, with the claim that work always takes precedence for millennials in the GBA (there was a separate discussion of the ‘9-9-6’ culture in the local tech sector: i.e. 9am to 9pm working hours, 6 days a week).

That same work ethic wasn’t something that applied to the millennials in his workforce, one business boss from Europe wistfully whispered to WiC.

As for working life in the GBA, perhaps the best example was given by Neo Wang, HSBC’s co-CEO for Guangdong. He commented that a typical day might see him hold a staff meeting at 9am in Guangzhou; get to Shenzhen for a client lunch at midday; catch the bullet train to Hong Kong for a regional meeting at 4pm; and be back across the border at his apartment by 8pm.

Welcome to the future… ■
Energy and Resources

Oil cash floes

Chinese SOE wins major Russian Arctic contract

In January of last year the Chinese government issued its first white paper on the Arctic.

It announced that China was now a “near-Arctic State” and that as a major power and stakeholder in the region, the Chinese would play a greater role in Arctic affairs.

The assertion came as a surprise to some: after all, China is no closer to the North Pole than Kazakhstan.

But Beijing’s argument is that what happens inside the Arctic Circle affects China directly. “The natural conditions of the Arctic and their changes have a direct impact on China’s climate system and ecological environment, and, in turn, on its economic interests in agriculture, forestry, fisheries, the marine industry and other sectors,” it said.

In recent years Chinese activity in the Arctic has increased, often with the assistance of the Russians, whose northern coast is almost entirely inside the Arctic Circle.

This year alone the Chinese have bought a 20% stake in Arctic LNG-2 (a Siberian liquefied natural gas project) and set up a joint venture with a Russian state shipping company for a fleet of ice-resistant gas tankers.

This year alone the Chinese have bought a 20% stake in Arctic LNG-2 (a Siberian liquefied natural gas project) and set up a joint venture with a Russian state shipping company for a fleet of ice-resistant gas tankers.

In April the Russian Academy of Sciences and Qingdao National Laboratory for Marine Science and Technology also agreed to set up a joint research centre in the Arctic region.

Another project – to build an oil processing plant in the Payakha field in northern Russia – has made headlines in the Chinese media, in part for what it says about the improved fortunes of state-owned China National Chemical Engineering Group Corporation (CNCEC).

CNCEC was founded in 1953 and it was one of the first companies to build overseas plants.

A few years ago it started to emerge that the company had financial problems and in 2017 its chairman was sacked by Sasac (the administrator of the country’s largest state-owned enterprises) and replaced with Dai Hegen – the former president of China Railway Group.

The Payakha contract is also seen as important because it is the first time a Chinese firm has been chosen as the lead contractor on an oil and gas project in the Arctic. It is also an interesting statement that the contract did not go to one of China’s big three oil majors (CNPC, Sinopec and CNOOC). There seems to be an underlying powerplay here to divvy up some of the energy spoils (key shareholders of CNCEC include coal giant Shenhua and the smaller state-owned oil firm Sinochem).

A subsidiary of CNCEC will build a plant in Payakha for the treatment of crude oil, a port for shipping 50 million tonnes of it a year, and a power station to keep things running. The Payakha field, located in the northern reaches of Krasnoyarsk, has probable oil reserves of 420 million tonnes and a possible resource of 2 billion tonnes – making it one of Russia’s largest fields if the fuller figure proves accurate.

The financial website Jiemian said the contract for the oil project was worth Rmb34.5 billion ($5 billion) – the equivalent of all other construction deals signed by the top three Chinese oil companies last year. Jiemian also referred to CNCEC as a “dark horse”, claiming that the signing of such a large-scale agreement is “very rare”.

One party that’s a lot less impressed by China’s claims to a fuller presence in the Arctic is the American government, whose Secretary of State Mike Pompeo laughed off Beijing’s self-proclaimed designation in May. “Beijing claims to be a ‘near-Arctic state,’ yet the shortest distance between China and the Arctic [Circle] is 900 miles,” he chided.

“There are only Arctic states and non-Arctic states. No third category exists, and claiming otherwise entitles China to exactly nothing.”

Speaking at a meeting of the Arctic Council in Finland, Pompeo also warned that China could use its claims on research in the region to strengthen its military presence there.

“We need to examine these activities closely, and keep the experience of other nations in mind. China’s pattern of aggressive behaviour elsewhere will inform how it treats the Arctic,” he said.

“Do we want the Arctic Ocean to transform into a new South China Sea, fraught with militarisation and competing territorial claims?” he added.
Big bay data

Why an emissions database is needed in the GBA

Pollution is a problem that doesn’t respect borders, as American scientists highlighted again in a study of their national parks two years ago. Ozone levels were well above normal in the summer months in places like Yellowstone, Yosemite and the Grand Canyon – with more than half of the smog blowing in from faraway Asia.

Back in China policymakers have been trying to get to grips with pollution in the towns and cities that make up the Greater Bay Area (GBA). The outline development plan for the region (nine main cities in Guangdong, plus Hong Kong and Macau) cites green goals as a priority: ‘Ecological conservation’ is mentioned time and again, and the blueprint was updated last week with more specific targets for the three years ahead.

Among the commitments: the elimination of black and smelly water in urban areas by next year; an expectation of 90% of days of ‘good’ air quality in the main cities, with average PM2.5 concentrations of 34 micrograms per cubic metre or lower; and new targets for trees across the region, with forest coverage of 52% of the land area.

The longer-term context is that the region’s powerhouse economy has always been a major contributor to the dirty air. Cars, factories and power plants spew out pollutants in a process made worse by hotter weather and the urban sprawl. The effects are then concentrated along the fringes of the Pearl River, where the polluted air cools above the water and disperses nearby.

The region has been trying to clean up its act, initially with local-level controls that put dirtier companies out of business but more recently in pursuit of a structural shift in the economy, where industries like electric vehicles are championed, and smokestack sectors are moved out or closed down.

An air quality network tracks the major pollutants at various points in Hong Kong, Macau and Guangdong, and concentrations of contaminants like sulphur dioxide and nitrogen dioxide have been falling since 2006, when monitoring started.

It isn’t all good news, however, with the latest results suggesting that ozone concentrations were at 58 micrograms per cubic metre last year, the worst since 2011.

Green groups in Hong Kong are unimpressed, pointing out that ozone concentration has increased by more than a fifth since measurements began, and the city’s air pollution chief did little to improve the mood in admitting that Hong Kong wouldn’t be able to meet the World Health Organisation’s air quality targets for 2025, even if it reduced its own emissions to zero.

Why? Because of all the pollution that drifts into the city from across the border in mainland China.

Campaigners say that situations like these show that an emissions inventory has to be created at a regional level, enabling a more coordinated understanding of where the pollution is coming from. At the moment this intelligence just doesn’t exist, veteran analyst James Ockenden said earlier this year, making it impossible to prioritise the policy responses to the smoggy air.

“We don’t know if the fine particle ‘background pollution’ choking Hong Kong is predominantly from 19 million Guangdong cars, from Shenzhen electric bus brake pads, from chemical plants burning coal, from coal-powered plants, from China’s marine traffic, from the 15 million smokers in the province, from farmers burning fields, or something else more surprising altogether,” he complained.

Pinpointing the causes of pollution across the different cities in the GBA is going to create political challenges. The worst offenders will worry about being pressed to close their dirtier industries, for instance, or being made to pay carbon taxes in compensation. But the green lobby says a detailed inventory is desperately needed if the problem is going to be properly addressed.

What’s more, the absence of an inventory is embarrassing for a region that is styling itself as a heartland of greener, innovative thinking. Ockenden says: “We’re not short on tech, innovation or analytical clout in the region: in Shenzhen, jaywalkers are caught and fined by facial recognition technology... are we saying a detailed and thorough emissions inventory is impossible?” he asked.
Outside the Sterling Memorial Library at Yale University there is a statue of Yung Wing, the first Chinese scholar to have graduated from an American university.

After receiving his degree in 1854, Yung returned to China to pioneer the Chinese Educational Mission, which co-funded the studies of 120 Chinese in the United States.

Yung advocated that “the rising generation of China should enjoy the same educational advantage I enjoyed; that through Western education China may be regenerated.”

Because of the Trump administration’s increasingly restrictive attitude towards Chinese students studying at American universities, Yung’s statue has something of a bygone feel. The American president did backtrack a little after his G20 meeting with President Xi Jinping at the end of June, signalling a more open stance on Chinese coming to study in the US.

However, given the headlines in China this year about rejections of student visa applications and cancellations of university places on national security concerns, the damage has largely been done: many Chinese parents are now uncertain on whether their offspring should even bother applying to US colleges.

This is a significant challenge for America’s institutions of higher education which have become increasingly reliant on Chinese student fees.

In the past decade alone, the number of Chinese choosing to study at US universities has flourished, or intensified, depending on your stance. For the academic year 2007/08 there were 81,127 Chinese students making the journey – mainly choosing to go to California or New York. By the academic year 2017/18, this figure had jumped to 363,341 and NAFSA, the world’s largest non-profit dedicated to international education, calculated that for the last academic year (2017-18) students from China had contributed $13 billion to the American economy.

In spite of the surge in student numbers over the last decade, more and more Chinese are choosing to consider other options, frustrated at the growing unpredictability of US policy on Chinese nationals attending American seats of learning.

Since July 2018, Chinese nationals studying for postgraduate degrees within robotics, aviation and hi-tech manufacturing have been restricted to 12-month visas, for instance, with these areas deemed as a more likely threat to US national security and a source of intellectual property theft.

The upshot: what was once a seemingly innate preference for US schools over alternative options in countries like the UK, Canada and Australia has morphed into a decision filled with much more apprehension.

Sometimes the concerns of Chinese parents about their children studying in the US are couched in slightly different terms. Nancy, a stay-at-home mum from Shanghai, whose daughter is 16 and starting to consider her university options, told WiC: “Online horror stories have dissuaded me from sending my daughter to the US to study. We have family friends who sent their daughter to university in Miami, but she could hear gunshots at night. Also, being quite timid, she didn’t feel she had had the opportunity to integrate into US university culture and make American friends. After six months, she came back to China and reapplied to a...
Many netizens have said they believe visa complications and the unlikelihood of obtaining a visa sends a darker message to Chinese nationals, and that message will only be intensified. It does nothing but worry parents and give the impression that studying in the US as a Chinese national is dangerous,” she says.

Netizens in China have also made shootings on American campuses an issue when weighing up safety concerns versus other countries.

The fatal shootings of 23-year-olds Ming Qu and Ying Wu, students at University of Southern California (USC), in 2012 first triggered alarm bells for many parents, but beyond these safety fears, says Yang Zhulan, founder of InVisor, a Guangzhou-based Education Consultancy, are two predominant concerns for the majority of his Chinese clientele.

One is that their visa applications will be rejected; while the second is that post-study employment prospects for Chinese nationals in the US are also shrinking.

“Rumours circulating on the internet in China with regards to student visas being rejected are vicious. Many netizens have said they believe this will jeopardise the already highly risky STEM-related degrees, even though the success rate of student-relevant visas (e.g. the F1) has been increasing recently. Those working towards their PhDs in a STEM-related field have expressed concern at having their visas cancelled midway through their degrees – and that’s a significant burden, given that a PhD in the US can take between five to 10 years,” Yang told WIC.

In April we reported on the case of Wang Da, a doctoral student at the University of Texas, who was unable to return to his studies due to visa complications. And Yang says that in light of this kind of unpredictability, increasing numbers of Chinese parents are stating their preferences for their children to study elsewhere.

“InVisor’s services have always covered the UK and Canada in addition to the US, so for us we simply shift our priorities without having to understand entire new application processes. But it has been fairly apparent that parents have started to show a growing interest in Canada, and particularly the UK.”

A recent report by EIC Education, another education consultancy, found that 20% of Chinese students now select the UK as their first choice for university, compared to the 17% that are keener on the US.

Sun Tao, the president of the New York-listed education giant New Oriental, said at a recent forum that the number of Chinese students applying to UK universities had “soared” by 30% over the past 12 months.

Dr Elizabeth Adey, Founder of UK-based Uni Direct, highlights another reason why customers from China are looking at a wider range of options: "The rising cost of studying in the US is the most common reason our Chinese clientele gives us for choosing other countries over the US. But increasingly we also get a sense from prospective students that they are seeking out an environment that feels more welcoming and often one that offers incentives such as post-study work permits,” she says.

“Many countries like Canada are making their education systems more open to international students to both study and embark on a career after graduating. New visa rules help retain talented students. Also, in Germany, for example, some courses are free or have a very low cost for international students.”

For fathers such as Jiafeng from Beijing, who is sending his daughter to one of the UK’s most prestigious girl’s boarding schools this year, the political mood will also play a significant factor in where she will go to university.

As he told WIC: “It has always been my preference for my daughter to complete her schooling in the UK, and then her university studies in the US. But recent political shifts have skewed my preferences, particularly since my business has been negatively impacted by the trade war”.

“I’d always wanted my daughter to graduate from Harvard – apparently the same dream as 99% of Chinese parents. But what if she starts at Harvard, comes home to China for the summer, and her visa is denied so that she is unable to complete her studies? We as a family lose face, my daughter’s education is disrupted, and we have to find an alternative.”

Jiafeng explained that while the there is uncertainty in the outlook in the UK because of Brexit, there has been no targeting of Chinese students, unlike the situation in the US.

“Places like Cambridge and Harvard are both renowned throughout the English (and indeed Chinese) speaking world. To me, it now makes no difference which one my daughter attends. In the next five years, if Sino-US tensions have eased, then great. My daughter will be applying from a UK school anyway, so as a Chinese national it should be less of a problem... But Cambridge is also a little less expensive than Harvard, so maybe we’ll stick to the UK,” he said.

This essay was written and researched by Olivia Halsall, who has been working in Shanghai in the private tuition sector and wrote a previous insight on Chinese educational trends for WIC in issue 435.
High school lows
A TV drama about Chinese students studying in the US gets mixed response

A survey published in 2013 by Yale researchers found that 45% of Chinese students in the US reported symptoms of depression on campus, and 29% were suffering from anxiety. The rates were startling, compared with the roughly 13% reporting depression and anxiety among the general population in American universities.

Apart from homesickness and cultural and language barriers, a big worry for many students is the price of failure. Chinese international students overwhelmingly pay full tuition. An annual cost of, say, $50,000 to $60,000 is a major bill for Chinese middle-class families. Some parents even need to mortgage their homes in order to finance their children’s education abroad. Students have admitted that the weight of expectation can feel akin to an avalanche bearing down on them.

No surprise then that a new TV drama has picked up on the theme of studying in the US – albeit at preparatory schools rather than college. Over the Sea I Come to You, which has been airing on Dragon Satellite TV and Zhejiang Satellite TV since mid-June, primarily tells the story of a protective father named Huang Chengdong (played by seasoned actor Sun Honglei) who follows his teenage son Xiaodong (Zeng Shunxi) to the US while he studies abroad. The show also examines the stressful relationship between a stepmother and her teenage stepchild (played by actresses Xin Zhilei and Jiang Yiyi) when they are forced to live together abroad.

The drama was originally scheduled for release in May but it was pushed back until June without explanation. At the time, industry observers believed that the delay had something to do with the trade row with the US, as the programme showcases the US education sector (see WiC453).

This interpretation may have been wide of the mark, since the show portrays life in the US in far from glittering terms. For instance, there is a dramatic sequence about gun violence. In one episode, a gunman appears in the high school where Xiaodong is studying with what looks like a machine gun, taking the lives of several students. Even though police arrive quickly at the scene, they are largely incapable at stopping the gunman. But no matter, Huang senior comes to the rescue. The fearless father, with just
his fists, tackles the killer into submission.

In another episode, the father-and-son duo are stopped at immigration because the officer is worried that Huang will overextend his stay. The father, unable to speak any English, resorts to hand gestures and facial expressions to plead with the immigration officer to let him stay in the country. Miraculously, the smiling officer, amused by his performance, allows him to remain in the country for six months (evidently he didn’t get the memo from Trump).

“I have never seen anything so outright ridiculous,” one netizen exclaimed of that episode.

On Douban, the series has a rating of just 3.5 out of 10. Word of mouth has also been overwhelmingly negative. “I made myself watch the first 14 episodes and I couldn’t do it anymore,” one TV reviewer lambasted. “What the show wants to express, it appears, is that if you have bad grades and you are immature, it’s fine, you can go overseas and be garbage elsewhere. Middlemen can help you arrange a house and a bus to take you from the airport. This is a show you don’t want to show your children.”

“It really makes me wonder where the screenwriters get their inspiration. I have friends that work until midnight to make ends meet. They are civilised and they are hardworking. But I have never seen anybody so immature, lazy and spoiled as the characters on the show,” another complained.

Nevertheless, the series has struck a chord with some parents – albeit because they’ve learned from the characters what not to do when raising their children. For instance, Huang spends most of his time worrying about his son instead of encouraging his independence. And a single-mum character in the show gives up her career to be a stay-at-home mother, but her overly strict parenting style drives away her only child.

Perhaps the overarching message of the show is that educating your son or daughter in the US is not without pitfalls. (For more on this topic and the backlash against studying at US colleges on visa concerns, see our Essay on page 18.)

Red Star: New Disney darling

Disney’s animated film Mulan flopped in China 10 years ago as audiences complained the titular character Hua Mulan was too foreign-looking and the plot was too different from the original legend, which has a young woman disguising herself as a male warrior to perform military service for her ailing father.

A live-action reboot of Mulan featuring Chinese starlet Liu Yifei looks set to be more rewarding for the American studio. When a three-minute teaser of the new film was released on Sunday, it was viewed more than 35 million times on Chinese social media in 24 hours. The hashtag #HuaMulan has also been viewed over a billion times and attracted 707,000 comments on Sina Weibo.

So far, feedback on the remake has been positive. “To be honest, I was sceptical when I first heard that Liu was going to play Hua Mulan. After all, can someone so feminine play a woman that could pass as a man? But after watching the trailer I was convinced. All the action sequences perfectly demonstrate how brave and good at fighting Mulan is,” one netizen wrote. “China’s first Disney princess, so looking forward,” another gushed.

Others were more amused by the makeup. In the trailer, Liu is shown in ceremonial gear with red lips, reddened cheeks and a red fan-like design on her forehead between her eyebrows. Many netizens commented that the forehead design bore a striking resemblance to Huaweï’s logo and inferred she was going into battle for the under-attack firm. “Indeed, Mulan is already bringing honour to her country,” one jokingly wrote, referencing Washington’s targeting of Huawei.

In contrast to Western reaction, Chinese audiences weren’t too upset that Disney has cut the 1998 version’s iconic musical numbers and Mulan’s comedic dragon sidekick, Mushu.

“What we care about is whether Hua Mulan looks charming and whether the film accurately reflects Chinese culture and Mulan’s perseverance,” one netizen, quoted by SixthTone, wrote on weibo after reading international comments on Instagram. “But (the Western audience’s) main focus is that there are no songs and no Mushu? I’m speechless.”

The film features an all-star Chinese cast, including action hero Donnie Yen, who plays Mulan’s mentor, while Jet Li is cast as China’s emperor. Gong Li will play the film’s villain, a wicked witch. The English-language film will hit cinemas worldwide on March 27, 2020.
Cautionary tale

NBA’s leading scorer stopped by Shanghai police

It’s the sort of insurance policy that even the most experienced underwriter would shudder to price: insuring against injury one of the world’s most famous basketball player as he rides a motorbike on China’s chaotic roads. But as it turned out, the major risk was not of crashing, but rather of falling foul of the traffic cops.

It was unclear if the Shanghai police knew who James Harden was when they pulled him over for violating traffic regulations while riding a rented electric moped this month. The NBA scoring champ’s exact infringement wasn’t made clear, but it was reported that Harden had his moped confiscated after the incident.

He was riding around Shanghai as part of a three-city promotional tour arranged by Adidas. The video of Harden being stopped by traffic police quickly went viral, sparking a flurry of sarcastic responses from Chinese and American fans.

“Elite NBA defenders cannot stop Harden, but he is no match for the Shanghai police,” joked one fan on Weibo.

Some picked up on an inside joke among basketball fans that Harden’s signature stepback move looks a lot like ‘travelling’ – a rule violation where a player ‘travels’ more than two steps without dribbling the ball.

“James Harden has finally been called out for a travel,” quipped one Reddit user.

“NBA refs should learn from these policemen,” mused another.

Before arriving in Shanghai, Harden had visited Beijing to meet his fans and he also attended an event in Guangzhou. Harden mingled with Chinese supporters, signed autographs, and showcased his skills in front of a large audience. During his Beijing visit, he also donned a traditional Peking opera outfit and was filmed doing his signature move: the ‘stepback three’.

Harden, who was named the NBA’s Most Valuable Player (MVP) in 2018, is very popular in China. Aside from being one of the NBA’s most exciting basketballers, he also plays for the Houston Rockets, the same team that Chinese basketball legend Yao Ming played for. The Rockets remain a huge franchise in China.

His China tour was notable for another reason: Harden skipped this year’s NBA Awards ceremony to cross the Pacific, even though he was also a candidate for this year’s MVP award. Evidently he viewed China as a greater priority and it was certainly a decision that appealed to his Chinese fans. (He was not named MVP this year, as Giannis Antetokounmpo from the Milwaukee Bucks took home top honours.)

China is the largest international market for the NBA, with its NBA China unit worth over $4 billion in 2017, reports Forbes.

With the stakes so high many local fans reckon a chauffeur-driven car should be Harden’s preferred mode of transport on his next visit to the country.
Photo of the Week

Good turn: a Chinese policeman practices before the upcoming World Police and Fireman Games in Sichuan

Chilling out

“Though winter may be tough to live through, it’s a good time to do introspection”

A comment attributed by the Wall Street Journal to female tycoon Zhou Xiaoguang, whose conglomerate Neoglory was in bankruptcy court in April after it defaulted on a bond. Yiwu-based Neoglory expanded from its roots in costume jewellery into property and retail, racking up $6.8 billion of borrowings. The liquidity crunch is similar to that faced by Ningbo property-to-car conglomerate Yinyi (see WIC458) and signals a worrying trend.

In Numbers

€28 million per season
The offer from Guangzhou Evergrande, a top-flight Chinese club, to Jose Mourinho. The former manager of Manchester United and Chelsea, said he would like to focus his career in Europe, however. His rejection contrasts with Rafael Benitez, former boss of Newcastle United, who is reported to have signed a contract with Dalian Yifang, another Chinese Super League team, worth £12 million ($15 million) per year.

35%
The proportion of L’Oréal’s sales made through online channels in China last year, versus 15% in the UK, 11% in the US and 4% in France, the Financial Times reports. Its revenues in China grew 33% on the year, helping the French firm log its fastest organic sales growth in a decade.

43%
The year-on-year surge in average prices for fresh fruit in June, the biggest jump since June 2006, Caixin reports, partly because of heavy rain in southern China. The average pork price also climbed 21% amid the swine flu outbreak.

450 million
The number of people suffering from short-sightedness in China, China Youth Daily reports. The number is expected to hit 700 million by 2020, or 51% of the population aged above five, costing the country Rmb680 billion ($98.9 billion).

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