First half sales data suggest torrid time for car executives in China
The Chinese name for Pangda Automobile means “very large” and Pangda was once the world’s most valuable car dealership, with a market value that came close to Rmb100 billion ($14.5 billion) when it was the first of its kind to go public on the A-share market in 2011.

More recently Pangda’s financial problems have made less welcome headlines, after the 800-store dealership declared bankruptcy protection (its market value has plunged to Rmb8 billion). That led to questions about whether its so-called “4S” (sales, service, spare parts and surveys) dealership model had run its course in China.

Much of the answer hinges on the health of the world’s largest car market, which stopped growing last year for the first time in nearly three decades.

How did car sales fare in the first half of 2019?
The official report came in last week and it wasn’t pretty. According to the China Association of Automobile Manufacturers (CAAM), 12.3 million vehicles were sold over the first six months of 2019, or 12.4% less than in the same period last year.

Many analysts had been expecting tougher times after sales dropped 2.8% to 28.1 million vehicles in 2018, the first annual decline in 28 years. But according to Car Commune, a WeChat blogger widely followed by industry insiders, few had expected things to get even uglier this year as well.

“After a cold winter that has lasted for 12 consecutive months, those who were expecting the car market to return to growth have given up their hopes,” the blogger wrote this week.

Car sales hit reverse gear in May last year but the slide has accelerated during the January-to-May period in 2019, with the year-on-year declines exceeding 15% each month.

There were some signs of recovery in June as retail sales rose 4.9% to about 1.8 million units but analysts say the growth spurt won’t last because it was driven by a one-off factor: dealers were unloading older stock before new emissions stan-
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Standards took effect this month (more on this later).

Eighteen provinces and regions – which account for most of China’s car sales – required vehicles to meet the new standard as of July 1.

“Everyone’s realistic about the rocky road ahead,” Car Commune admitted. “The year-long consolidation is set to reshape the Chinese car market and its ecosystem entirely.”

**Which carmakers disappointed most?**

At the beginning of the year, CAAM was expecting zero growth in 2019. Now the consensus view is that the market is heading for a back-to-back drop – and probably a hefty one.

With sales already struggling in China amid slowing economic growth, American car firms were on the receiving end of a double whammy, thanks to Donald Trump’s trade war with China, which has further eroded Chinese consumer sentiment and stoked an anti-US mood.

General Motors said last week that sales in China for the three months ending in June dropped 12.2%, while Ford’s sales slumped by 21.7%. The duo reported falls of 17.5% and 35.8% respectively in the first quarter.

South Korean carmakers like Hyundai were also hard hit. Through its joint venture with BAIC, the Korean firm sold more than a million vehicles in China before South Korean brands took a buffetting from a diplomatic spat about the deployment of the American THAAD anti-missile system two years ago (see WiC354). Its affiliate Kia Motors also sold 650,000 units in 2016. Hyundai managed to sell another 790,000 units last year while Kia’s sales dropped to about 370,000 units. The slowdown forced Hyundai to cut about 1,000 jobs in China last year, with Kia laying off 300 employees, Korea Times reported last week.

**Why the sales revival in June?**

The June rebound stirred little optimism in the broader market. Volkswagen, for example, openly attributed its stronger sales in June to changes in China’s vehicle emissions rules, which saw dealers offer steep discounts to cut inventories of vehicles that fell short of the new tougher requirements.

The so-called “State VI” standard went into effect on July 1 in many Chinese cities. The new format is equivalent to the Euro VI threshold and it’s designed to slash emissions of major pollutants by half from the previous standard. The central government previously planned to implement it by July 2020. However, policymakers decided to speed up the schedule amid increasing public concern about air pollution (see WiC178).

The new rules have made it illegal to sell vehicles that do not comply with the State VI standard. As a result, Caixin Weekly reported last month that as many as three million cars were sitting on dealership forecourts across the country needing to be offloaded fast.

**Is anyone doing better?**

Among the companies which have already published their first-half results, most failed to pass their mid-term-exams, Guangzhou Daily said, in achieving half of their full-year sales targets by the end of June.

An exception were a couple of Japanese carmakers working with Chinese joint venture partners. As of June, Honda’s JV with Guangzhou Auto Group (GAC) had sold more than 394,000 vehicles in China. That is 16% higher than last year and comprises 51% of its 2019 performance target. Likewise, GAC Toyota completed nearly 52% of its sales goal this year by selling more than 380,000 units, a 6% year-on-year improvement.

Toyota’s other joint venture (with state-owned FAW Group) is the only other outperformer, reporting a 22% rise in first-half sales to about 311,000 units.

**Pang Qinghua: Pangda’s boss**

The situation continues to look grim as the duo’s sales dropped a further 22% during the January-to-May period this year.

Most of the Chinese carmakers have also reported disappointing sales. Of the top 15 local brands, 10 have seen sales declines for the first half. Geely, the top-selling local brand, sold nearly 654,000 vehicles during the period, or 14.5% down year-on-year. Great Wall, the runner-up last year, reported a 23.2% decline to 374,500 units.

That prompted a profit warning last week from Geely’s Hong Kong-listed unit, which told investors in a stock exchange circular that its profits for the first half will take a 40% dive from the Rmb6.7 billion ($973.9 million) made last year.

At the same time Geely cut its 2019 sales targets by 10% to 1.36 million cars. Geely’s share price has dropped nearly 40% in the past three months to a near two-year low (as of this week).

**Talking Point**

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Talking Point

That equates to Rmb500 billion in inventory value with 4S shops like Pangda rushing to sell the now sub-standard vehicles via a range of incentives.

Reuters reported the frantic efforts at a Shanghai-based Buick dealership from late April as it sought to sell almost 80 older sedans and SUVs that couldn’t be sold after the June 30 deadline, for instance. “Customers didn’t know how long they could drive China-5 cars or whether they would be able to resell them in the future. And to be honest, we didn’t know either,” its boss admitted. To clear the stock, he had already cut prices by as much as 30%, he said.

In other words, last month’s sales rebound was driven by dealers selling many of their vehicles at a loss. Even so Caixin Weekly cited a survey by the China Auto Dealers Chamber of Commerce (CADCC) that two-thirds of the 4S shops wouldn’t be able to sell their full backlogs of State V cars. Worse, some are locked into long-term contracts with the automakers that compel them to keep buying the vehicles – even though they won’t meet the new emissions standard.

Thousands of 4S shops are suffering, with car industry journals using phrases such as “a deadly turn” and “the darkest moment” to describe the dealerships’ situation.

How grim is the 4S market?
Photos of an unusually large rice noodle restaurant went viral among car fans last month. Situated in a prime shopping district in Shenzhen, the shop was set up as a 4S to host almost 800 older sedans and SUVs that couldn’t be sold after the June 30 deadline, for instance. “Customers didn’t know how long they could drive China-5 cars or whether they would be able to resell them in the future. And to be honest, we didn’t know either,” its boss admitted. To clear the stock, he had already cut prices by as much as 30%, he said.

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World Trade Organisation, more car brands arrived in the Chinese market and the new dealerships – as the major retailing channel – enjoyed explosive growth.

But this is a capital-intensive industry. Apart from large showrooms and parking spaces, dealers have to find the finance to prepay the carmakers, which typically sell their stock to 4S stores at a discount. In a booming market, running a 4S was a surefire way of making money but Daily Auto News reports that many of the shops are now struggling to survive. According to the CADCC, the number of 4S stores nationwide numbered 29,249 last year, a small increase on 2017. But a little over half were lossmaking and 27% of them have been in the red for three consecutive years.

The aforementioned Pangda looks like it could be the first domino to fall. During its heyday in the early 2010s, Pangda ran more than 1,000 stores and its sales topped Rmb70 billion a year. Last year it cut its retail network by 229 stores to about 800. The downsizing included selling five Mercedes-Benz 4S stores to market leader Guanghui Automobile for Rmb1.2 billion, plus another nine of its profitable 4S shops to the Hong Kong-listed Zhongsheng Group (the second largest car dealer) for Rmb1 billion.

The asset sales were a bid to offset the weaker performance in its underlying business. Pangda reported a 40% decline in revenues in 2018 to Rmb42 billion (ranking 9th after selling about 251,000 new vehicles). That resulted in a Rmb6 billion loss.

With weaker cashflows, there had been reports of liquidity trouble. The pressure was confirmed last month, when Pangda had problems paying back a Rmb77 million loan, Beijing News says. Despite what seems like a relatively small liability, the company opted for bank-
ruptcy protection.

The Shanghai-listed firm could still survive by engineering a successful restructuring or bringing in a new controlling shareholder. But Beijing News said the industry has been wondering more “who might be the next Pangda”. Acknowledging these concerns, the Shanghai stock exchange sent a number of queries to similar firms such as Guanghui last month, asking for more information on their financial situations.

Will the government help out?

After the 2008 global financial crisis Beijing saw the car market as a way of boosting domestic growth and it dished out a slew of tax incentives and subsidies to encourage buying. The result was a 45% spike in sales the following year but the worsening of traffic congestion and urban air pollution over the past decade has spurred a series of contrary views on supporting the sector.

For example, when Zhu Rongji published a compilation of his prime ministerial speeches, he highlighted his 2003 speech on public transport as the concluding chapter. Zhu’s point: he had sternly opposed subsidising passenger car purchases with public money (i.e. tax rebates).

Policymakers seem still to be conflicted on their approach to the car market. At the beginning of this year, government officials and state-run media outlets were talking up the prospect of a generous stimulus plan. However, these hopes were largely dashed when the policy measures were unveiled last month. The government did offer help to vendors in a few large cities such as Guangzhou and Shenzhen, promising to issue more new car licence plates, but the cream of the stimulus measures were confined to new energy vehicles (NEVs), not cars with gasoline engines.

Industry analysts such as Car Commune think the central government is going to take a harder line, applying the principle of survival of the fittest in what is already an oversupplied market.

“Take State VI, for example. At first many people thought the policy was set out to protect the blue sky but we now realise that it is a battle to consolidate the car market,” it noted. “If you complain over a mere emission standard upgrade you probably don’t deserve to survive at all.”

The sales crunch is just one of a number of changes coming to the 4S market. Foreign carmakers such as BMW have been trying out new sales channels, including their own internet platforms. Then there’s Tesla, which will start trial production at its new Shanghai factory in September. The American firm plans to add to the disruptive mood in the market with a direct sales model that bypasses middlemen i.e. 4S dealers.

After many years of cruising along in fifth, the sector’s executives are discovering that the China market has another significant gear too – reverse – and that their businesses aren’t so well engineered for that.

Monte Carlo or bust

With its famous casino, the principality of Monaco is no stranger to a game of roulette. And in the eyes of the leaders of the European Union it has shown its gambling instincts by becoming the first country in Europe to install Huawei’s 5G telecoms infrastructure.

The new, faster technology is deemed essential to the next wave of innovation in areas such as autonomous cars and the internet of things (IoT). But Huawei’s 5G network is also controversial in Brussels (and Washington) for its alleged security risks, with the suggestion that it could grant Beijing a backdoor into confidential data.

Monaco Telecom signed an agreement with Shenzhen-based Huawei in September to install the kit in the world’s second smallest country. And according to Technode, the deal was a significant one as Monaco becomes the first in Europe to “fully welcome Huawei 5G technology as part of its core infrastructure and showcase its technology”.

“It allows us to make a shop window in a number of areas, notably linking 5G development to the intelligent state,” commented Guo Ping, a Huawei vice president. Clearly, in this instance the principality is betting on red…
Google’s China ties queried

The major news items from China this week were...

1. The Chinese have reshuffled their trade negotiation team, bringing in Zhong Shan, the commerce minister. He is expected to take a tougher line in the next round of talks, after demanding that the Chinese “uphold our warrior spirit”, according to the Washington Post. “By parachuting the minister of commerce into the scene, China is trying to tell the US that we mean business more than ever,” Yao Xinchao, a professor at the University of International Business and Economics in Beijing told the newspaper.

2. The impact of the Sino-US trade row is being felt in Central America, with a slump in freight traffic passing through the Panama Canal. Throughput has plummeted this year as the Chinese cut their imports of American food and fuel, according to the canal authority boss Jorge Luis Quijano. Japan has displaced China as the canal’s second-largest user, he added, with American firms retaining their position as the canal’s biggest customers.

3. Donald Trump says he will respond to concerns raised by billionaire investor Peter Thiel about Google’s ties to China, tweeting that the Trump Administration will take a look. “I would say answer my three questions,” Thiel had asked during an earlier interview on Fox. “How many foreign intelligence agencies have infiltrated Google? Have the Chinese, in particular, infiltrated? And why are you working with Communist China and not the US? What is the reason you’re doing that?”

4. Protests in Hong Kong could put off 350,000 mainland Chinese tourists from visiting the city this year, HSBC estimates. It lowered forecasts for increases in mainland arrivals for the year to 9% from 9.7%. The number of visitors increased 14% last year. City retailers are braced for a double-digit decline in sales over the summer holidays because of the anti-extradition bill demonstrations, the South China Morning Post added.

5. The Chinese authorities have prevented JD.com and Meituan Dianping from creating their own high-precision maps for delivery robots, Caixin reports. Both firms have variable interest entity (VIE) ownership – arrangements that allow overseas-listed companies to dodge rules that limit overseas investment in sectors like the internet industry. However, national regulations also ban China-based mapping servers from sending data abroad.

6. More targets have been published for the Healthy China 2030 initiative, a public programme first approved in 2016. Goals to be achieved under the campaign include extending life expectancy to 79 years, reducing the proportion of smokers to less than a fifth of the population, making sure that more than 40% of people get regular exercise, and increasing the average intake of fruit and vegetables to more than 500 grams per person per day. “Major health indicators will be included in the performance appraisal indicators of Party committees and governments at all levels,” the official release also promised.
Russians are obsessed with cars. They are a status symbol, a hobby and the subject of many a joke.

But China’s Great Wall Motors is far from amused at some of its initial experience of operating in the Russian market. According to a filing made to the Hong Kong Stock Exchange earlier this month the company lost at least $50 million in a murky deal with a Russian distributor back in 2015.

In the grand scheme of things it’s not a huge amount – equivalent to 6.3% of Great Wall’s net profit in 2018, the company said. And since incurring the loss, Great Wall has gone on to build a $500 million factory near Moscow to produce 150,000 of its Haval brand SUVs a year for sale in Russia and neighbouring countries such as Kazakhstan.

Yet the case is still instructive for the thousands of Chinese companies now doing business in Russia. Russia scored 0.47 out of 1 in the World Justice Project’s Global Rule of Law Index this year, less than China’s 0.49 and much lower than Germany, Sweden and Canada which all scored over 0.8.

According to data from the Centre for Protection of Chinese Entrepreneurs Rights in Russia – a new organisation set up in May – there are over 5,000 Chinese businesses registered there. The Great Wall case is the largest that has come to its attention but there are plenty of other disputes, including at least 12 involving CC-7 a Chinese chemical engineering company building an oil refinery in the Siberian city of Omsk (note that is the same CNCEC subsidiary that has won the $5 billion contract to build a plant to process Arctic oil; see WiC459).

The dozen cases were brought by various Russian suppliers which claimed that CC-7 hadn’t paid them for goods. For its part CC-7 maintained the goods were faulty.

In Great Wall’s case, the chances of recovering any funds were looking bleak until Boris Titov – Russian leader Vladimir Putin’s Ombudsman for Entrepreneurial Rights – intervened.

Until that point Great Wall had had no luck in getting its case heard at lower levels of government.

Great Wall began working with Irito, a Russian distributor, in 2009, exporting its car parts to an assembly plant near Moscow.

The brand didn’t win a massive following – in 2013, its best year, it sold about 20,000 cars – but its sales volumes were growing slowly.

In 2014 Irito stopped paying. For a while Great Wall continued to supply it, believing that the Russian dealership had short-term cashflow problems due to Western sanctions. But when Irito and its web of subsidiaries began to declare bankruptcy in 2015, Great Wall moved to recoup its losses through the arbitration courts.

Part of the problem was that Great Wall had been sending its car parts to various Irito subsidiaries – possibly to avoid customs duties or in the hope that lower shipment volumes would expedite customs clearance.

This resulted in the court finding that Irito only owed Great Wall $1 million. So Great Wall went to the prosecutor’s office, which uncovered enough evidence to suggest that it had been “intentionally defrauded on a large scale”.

But in 2018 the case was dropped on the grounds that investigators “could not establish an individual who could be identified in the category of accused” – a reason that even the Russian media found strange.

Last month, after the new Great Wall factory had opened, Titov wrote to the chief prosecutor in Moscow asking him to take the case “under his personal control”.

As Titov put it: “Great Wall came to Russia with a real desire to invest for the long term and, in my opinion, the company deserves a more interested attitude from the state. I hope that the investigation of the criminal case on fraud will get off the ground.”

The timing of the request may be no coincidence, coming at a similar moment to President Xi Jinping’s visit to Russia in June, where he praised Putin as his “best friend”.

In fact, the case almost certainly came up in conversation when the two men visited the new factory and signed the bonnet of one of the newly-made Havals together.
To those Westerners who grew up watching the *Omen* movies the three digits ‘666’ denote the mark of the Antichrist. But to Chinese gamers and eSports stars the number has a more congratulatory meaning. Fans type it into a streaming channel’s feedback sidebar whenever the pro player makes a good move. Why? In Chinese slang the number “6” (liu) sounds like “cow” (niu), which colloquially means excellent or outstanding.

Many of those viewers will have regularly typed ‘666’ into the comments sidebars of gaming streams operated by DouYu, which this week completed its IPO in the US.

The Tencent-backed company hosts a variety of games played by thousands of top eSports stars. It is similar to Twitch.tv, the popular streaming site for gamers outside China. The two sites differ in that Twitch.tv makes money from ad revenues and subscriptions, while DouYu is more reliant on taking a slice of the ‘gifts’ sent to the individual streamers it hosts. This means that DouYu’s success is very dependent on the popularity of its streamers. DouYu says its ‘gifting’ model works in China thanks to the adulation of eSports fans for their heroes – it points out the number of paying users on its platform has jumped from 2.4 million to 6 million this year.

On Tuesday this argument received a mixed response from investors, as the company priced its shares at the bottom of its offering range. The $775 million IPO still made DouYu the largest Chinese IPO in the US this year, eclipsing Luckin Coffee, however, and valued the streaming firm at $3.7 billion.

But the Financial Times said the underwhelming response to the IPO reflected a “so what” attitude from investors who fear that, unlike Twitch.tv, DouYu’s source of revenue is less stable.

And there are other concerns too. One challenge cited in the prospectus was China’s censorship regime, with the company noting “our ability to obtain and maintain the licences and approvals required under the complex regulatory environment for internet-based businesses in China”. Beijing’s censorship of online video games (see WiC452) is a variable that is difficult for companies to control and a major threat to revenues if a popular game is banned.

Although the six-year-old firm has managed to double its revenue almost every year, the costs for streaming rights and sponsorship of eSports tournaments have also been rising. According to Phoenix News, Chinese eSports is still “a money burning business”. That’s why DouYu was operating at a loss until this year, when it reported a $27.7 million profit in the first quarter versus a $127 million operating loss last year.

DouYu’s most direct competitor, Huya, went public on Nasdaq last year. Huya also has Tencent as one of its biggest shareholders. It competes with DouYu not only over viewership, but also for streaming rights to certain eSports tournaments. For instance, DouYu lost out on the streaming rights to the LPL (*League of Legends* Professional League) when it signed with Huya for a larger contract fee – and was forced to poach the league back with a subsequently higher offer.

Another rising competitor is Kuaishou, which started with 15-second short videos but has expanded into video game streaming. Incredibly, Kuaishou is also backed by Tencent and it has been aggressively taking market share: for instance, 31 of the top 100 *PUBG* (*Player Unknown’s BattleGrounds*) stars have switched to streaming on Kuaishou, reported the South China Morning Post.

As the trio battle it out for gamers’ time and money, there is only one surefire winner and that is Tencent. The Shenzhen-based giant is perfectly hedged no matter which of the three emerges as the dominant platform. Moreover the three rivals are largely streaming titles that Tencent owns like *PUBG*, which only adds to the games’ popularity and the internet behemoth’s own online gaming revenues.
Three Squirrels set an unusual precedent when it went public on the Shenzhen stock exchange last Friday. Instead of having the chief executive or chairman ring the bell, it asked three people dressed as squirrels to officiate. They represented Xiaomei, Xiaokuo and Xiaojian – the widely recognised characters from the logo of the Anhui-based snack company, which sells products like crab-roe coated sunflower seeds and nuts.

The appearance of the cartoon characters for the bell-ringing ritual was a first in A-share history. It also said something about the Three Squirrels business model, which focuses on branding, marketing and distributing foodstuffs, as opposed to manufacturing them. In fact, it is a common approach for Chinese snack companies and it also sheds light on why there have been a spate of recent flotations in the sector.

At least 10 industry players have filed for initial public offerings or conducted one since the end of 2017. Among those in the queue are Bestore, Ganyuan Foods, Huawei Food and Liuliul Orchard. The long list partly reflects the size of China’s snack market, which is expected to reach Rmb9 trillion ($440 billion) in sales in 2020, or seven times the amount in 2006, according to the country’s Ministry of Commerce. However, it is also fragmented, with the top three players accounting for less than 5% of the pie, a statistic that signals the potential for consolidation.

Investors are cautious. “These companies usually adopt an asset-light approach to their business. They stick their labels on products that they do not produce themselves, and therefore have limited control over their goods,” Zhu Yue, executive director at Shanghai-based China Insights Consultancy, told China Business News.

Another concern is weak profitability. Last year the average profit margin for the industry was about 6.8%, and it had been declining for three consecutive years. Bestore and Three Squirrels – the two largest players with annual revenues of more than Rmb5 billion – recorded even lower profit margins than their peers. The crux of the problem is that many local snack brands rely on a handful of contract manufacturers to research and develop their products. “The market is suffering from widespread product homogeneity,” noted Sohu.com. That has led to limited brand loyalty among customers, which has also contributed to the margin squeeze.

The reliance on contract manufacturers (i.e. OEMS) also exposes the snack brands to greater reputational risks over food quality and safety issues. Last year Laiyifen was blasted for selling snacks in which plastic, hair and mouse droppings were found, reported Beijing News. The same report noted that the Shanghai-based company had got into similar trouble seven years earlier when a number of its contractors were found to be operating in unhygienic environments and failing to meet regulatory standards.

Like many of its peers, Laiyifen also saw its costs balloon in 2018, dragging its bottom line into a loss. The company attributed the surge in its costs to its aggressive buildout of new infrastructure to support omni-channel retailing. Indeed, the integration of online and offline purchases, and efforts to make it easier for customers to get their goods, have become an urgent issue for almost all the larger snack companies, especially as they have less room to differentiate their offerings through product quality.

Wuhan-based Bestore, a first-mover in digitising, says it will set aside 58% of the Rmb773 million it hopes to raise from an IPO this year for ‘smart retail’. Changsha-based Ganyuan Foods will plough 43% of its IPO funds into upgrading its distribution network, with a further 38% being spent on a factory in its home province Hunan (a sign that it wants to take more control of manufacturing quality). “If one industry player does an IPO, its rivals will immediately follow suit to ensure that they are on a level playing field,” observed Huxiu.com, a local news portal. “It is this anxiety that drives [snack] companies to IPO, to vie for access to the capital market.”
For six consecutive weeks, Hong Kong protesters have taken to the streets to demand the “full withdrawal” of the controversial extradition bill (see WiC457) in spite of the government saying the legislation is “dead”. Last Sunday was no different, with protesters marching in Shatin, a largely residential area. Although the demonstration began peacefully, the atmosphere became charged later on and there were violent confrontations with the police.

The clash ended with 22 people hospitalised. Half of them were policemen and one of them had a finger bitten off.

Local broadcaster TVB, too, has endured its share of rancour from the protesters. The TV channel complained that demonstrators attacked one of its reporters and a photographer. In a minute-long news segment, TVB referred to the attackers as “thugs” multiple times.

Hong Kong activists have long mocked TVB, which counts state-backed investment firm CMC as its biggest shareholder (see WiC424), dubbing it ‘CCTVB’ in a sarcastic nod to China’s state broadcaster CCTV.

Over the last few weeks, TVB has come under renewed attack for showing “heavy bias” in its coverage of the extradition bill, says HK01, a news portal. Its coverage, protesters complained, largely focused on the disruption the protests have caused and downplayed the political frustrations that have driven people to the streets in record numbers.

Hong Kong’s media industry watchdog also admitted to having received about 12,000 complaints about the station’s reporting of the controversial bill.

 Angry protesters have gone on social media to lobby companies to withdraw advertisements from the free-to-air network, which reaches 70% of the Hong Kong population. Their plea appears to have made an impression. Last week, Japanese sports drink maker Pocari said it had pulled ads from TVB because of its “biased” news coverage.

The same week, tissue paper brand Tempo and casual dining giant Pizza Hut both said they’d ceased advertising with TVB as well, though Pizza Hut claimed that the termination was part of its “usual practice of reviewing the effectiveness of different channels”; and Tempo then announced it will still advertise on TVB in future.

The politically-charged boycott, however, has enraged onlookers in mainland China. Many decided to weigh in on the matter too, and accussed the likes of Pocari of being “pro-Hong Kong independence”.

Pocari, the Global Times warned, should not “take the wrong side” or it will be punished by Chinese consumers. “You [Pocari] support the mobs, get out of China,” a mainland netizen posted. Another wrote online: “Sorry, I’ll never drink it again.”

“I have been drinking Pocari Sweat in the past but little did I know that I was supporting Hong Kong independence. I will stop buying Pocari from now on,” yet another posted. “In my opinion, Pocari Sweat should just retreat from China completely,” thundered a netizen.

The entertainment group behind girl band GNZ48 also said the troupe was ending its partnership with Pocari as it “opposes actions which affect peace and stability in the nation”.

Even Pizza Hut – a company that denied any association between its ad spend and the ongoing political situation – could suffer a backlash across the border, and not just against its restaurants. “Pizza Hut is operated by Jardine Matheson in Hong Kong. The company also owns Mandarin Oriental and Dairy Farm, which controls Man nings in China and 7-11 in Guangdong province. Now I think we all know what to boycott next,” a netizen threatened.

Another firm that is feeling the fallout is Japanese fast food chain Yoshinoya, after some of its Hong Kong employees posted material on its Facebook account that panned in Cantonese against police activities.

Hop Hing, the company that owns the Hong Kong franchise for Yoshinoya, later removed the post from the brand’s social media page. Its chief executive, Marvin Hung, was also quoted as saying that the staff members responsible were fired. And he told Wen Wei Po, the pro-Beijing newspaper, that he fully supported the Hong Kong government in accordance with the law.

The sackings, however, prompted demonstrators to gather outside a Yoshinoya outlet in Hong Kong with anti-management placards.
Economy

I used to say he was a good friend of mine. We’re probably not quite as close now,” Donald Trump said of the relationship with his Chinese counterpart Xi Jinping this week.

Trump’s claim to being a personal pal of Xi’s has always been unconvincing and his celebration of China’s worst GDP data for more than a quarter of a century this week was hardly a sign of bosom buddy behaviour.

The economy grew by 6.2% in the second quarter on the same period last year, the slowest rate since the start of 1992, when quarterly readings were first taken.

As ever, there were ways of picking out a few positives. Retail sales and industrial output beat expectations in June, as did investment in the first half of the year. But the gloomier assessments saw signs of worse to come, especially in the export figures, which fell 1.3% year-on-year in June.

That was the first full month that higher tariffs were in effect on $200 billion of Chinese goods and as far as Donald Trump was concerned, the broader slowdown was a vindication of his approach.

“China’s 2nd Quarter growth is the slowest it has been in more than 27 years. The United States tariffs are having a major effect on companies wanting to leave China for non-tariffed countries,” he tweeted on Monday, in a bid to claim responsibility for the slowdown. “Thousands of companies are leaving. This is why China wants to make a deal with the US, and wishes it had not broken the original deal in the first place.”

It was all too much for the Global Times, which countered that the American president was trying to “scare China”, as well as distract attention from growing discontent in the US at the impact of the tariff campaign. “Trump continued picking his one-string banjo and offered an arbitrary conclusion on how the tariffs have been paid for by China, not US taxpayers,” it scoffed.

“Isn’t it odd to have such confidence [to laugh at China],” the newspaper added, highlighting that China’s growth rate was more than double that of the American economy.

Xinhua’s commentary – under the headline ‘Chinese economy glitters with slower growth rate’ – took a different view to the American president’s as well.

There were two main points: that total exports had increased 6.1% in the first half of the year, demonstrating how the “interconnection” between China and its other trade partners would outweigh the difficulties with Washington; and that more than 60% of growth was coming from domestic consumption, with disposable incomes growing faster than the economy in general.

That meant that the trade row with Washington wouldn’t be as damaging as Trump claimed and it also signalled that it was foolish for other countries to fall out with Beijing in the same way.

Writing in the Financial Times James Kyenge reasoned that the latest GDP data “hardly constitutes a rout” and in an editorial column in that same paper it pointed out the Chinese will add output equivalent to the entire Australian economy if they maintain growth at the same levels of the first six months of 2019. (This is a point WIC has been making for several years – if you fixate on the slower GDP growth percentage masks the fact that the absolute amount of renminbi GDP added to the economy each quarter fluctuates far less, as over the years the size of the economic pie has risen. It now stands at about $13.6 trillion in dollar terms.)

Probably the more immediate risk is that trade tensions start to torpedo sentiment in China’s corporate sector. A sharper contraction in export orders could feed through into job losses and lower spending from consumers. Beijing might then try to bolster the economy with stimulus measures but it doesn’t have the same firepower as in the past, with its debt-to-GDP ratio more than doubling over the past decade.
The ‘divine’ dock
Another huge Chinese shipping industry merger

Neither side knew it at the time, but China’s ‘treasure’ ships dwarfed their European counterparts in the fifteenth century. The second Ming emperor built 250 oceangoing giants, capable of carrying 2,000 tonnes of cargo. The largest of the Venetian galleys could hold just 50 tonnes. A nine-masted treasure ship was 480 feet in length. Seventy years later, the caravel that carried Columbus across the Atlantic was 50 foot long.

Size still matters as far as China’s shipbuilders are concerned and the two biggest state-owned shipbuilders – China State Shipbuilding (CSSC) and China Shipbuilding Industry (CSSIC) – announced this month that they are merging. The two companies own a number of yards whose output ranges from aircraft carriers to container ships and tankers. The combined entity will have $120 billion in assets and 240,000 employees, according to industry publication Jane’s Defence.

Rumours about the merger have persisted for a while, gaining momentum in 2015 when CSSC and CSSIC swapped senior executives. The two companies were obvious targets for operational efficiencies, following similar mergers between the country’s two largest trainmakers, CNR and CSR in 2015, and then the combination of shipping and logistics giants Cosco and China Shipping in 2016 (respectively dubbed by local media as the ‘divine train’ and ‘divine ship’ to reflect their gargantuan scale).

In theory mergers like these should deliver plenty of savings as duplicated resources are rationalised and the newly combined entities no longer bid against one another for business. An editorial in the Economic Observer said something similar, arguing that the merger will “eliminate backward production technology, remove excess capacity, improve the allocation of state capital and enhance China’s international competitiveness”.

In practice the gains are rarely straightforward, with old rivals keen to protect their fiefdoms and lobbying frantically against job losses.

Xu Baoli from the research division of the State-Owned Assets Supervision and Administration Commission told Sina.com that the latest merger marks another chapter for China’s shipbuilders as the government switches from a focus on encouraging domestic competition to creating an international champion.

Similar combinations have been happening elsewhere, with the world’s largest shipbuilder Hyundai Heavy Industries (HHI) announcing plans to purchase the Korea Development Bank’s stake in Daewoo Shipbuilding & Marine Engineering for $1.7 billion earlier this year. The new group, called Korea Shipbuilding & Offshore Engineering, will cement South Korea’s position in an industry that has struggled with financial issues since a super-boom turned to bust a decade ago.

If HHI’s deal gets past the world’s antitrust bodies, the new group will command about a fifth of the global order book by tonnage, compared to 13% for the CSIC-CSSC grouping. Yet industry experts are unsure on whether shipbuilding has reached a long-anticipated bottom, with orders for new vessels still showing signs of dwindling. HSBC reports that the ratio of orders for container ships as a percentage of the total fleet hit an all-time low of 12.3% in May. At its peak in 2009 it was closer to 60%. The same ratio for oil tankers was 11% of the fleet, compared to 50% back in 2009.

That could signal that orders will accelerate as fleets get older and there are signs that sentiment is improving in the shipping sector, which could also prompt interest in new vessels. The Baltic Dry Index has tripled since February, thanks to rocketing iron ore prices and low inventories at Chinese ports, which has boosted demand for Capesize ships. But Peter Sand, head analyst at shipping association BIMCO, forecasts that fleet growth will outstrip demand across 2019 and 2020 and that an order book of 96 million deadweight tonnes spells “bad news” for the broader shipping industry.

Fresh orders are, however, likely to be driven by new regulations that require ships to burn fuel with a sulphur content of no more than 0.5%. As Mandarin Shipping’s founder Tim Huxley told WIC: “Longer term the advent of these environmental rules will force out older, less efficient tonnage, which should create a market for new vessels too.” But to capitalise the Chinese yards will need to produce these more complex, higher-performing vessels.
Her father was a senior aide to four US presidents and Pippa Malmgren was herself a special assistant to President George W Bush on his National Economic Council – so you might say she is steeped in Beltway politics. However, the London-based Malmgren is also co-founder of H Robotics, a maker of drones for industrial clients.

Malmgren was the keynote speaker at HSBC's GBA Connections event in Hong Kong in late June. WiC caught up with her to further explore some of the topics she raised, especially the future of the drone industry, new applications for facial recognition technology and what she thinks may really be driving Trump’s China policy.

In your keynote speech you spoke about facial recognition. Do you see this as an area where there is Chinese leadership?
Facial recognition is a fast-emerging technology and China definitely has leading capabilities in this space. Immediately one thinks of the company Sensetime, which is an extraordinary success. I think it is still the most successful start-up ever.

What major applications do you see facial recognition having?
There are two broad ways to think about facial recognition technology. One is identification, using it like a thumbprint or biometric to identify who a person is and what category of person i.e. is it a white female, a Chinese male. But the other aspect, which is far more interesting about the technology, is it allows you to engage in a brand new kind of cartography. It allows you to map emotions. That means it has the ability to identify when you are sad, scared, nervous and so forth. But it also can identify the micro facial movements that indicate when you are lying or telling the truth. This aspect has not been discussed as much and people haven’t thought as much about how this could be used.

For example, a bank may check whether a potential customer is lying when applying for a loan?

This is exactly the sort of use that is starting to unfold. The question then becomes is this a reliable way of doing it? The big criticism about facial recognition technology is we don’t have enough data points to reach reliable conclusions about the what the facial recognition is seeing. It’s not that it can’t be done. You just need a lot of data. It may be that one reason the Chinese excel in this area is they just simply have a lot more people and more faces to run those algorithms over. The quality of that data is currently largely a function of the quantity.
Could consumer goods firms use the technology to figure out reactions to proposed new products?
I could easily see that. It could certainly be more effective than existing surveying techniques. For instance, I can see it being really useful for companies asking if a consumer likes the product and showing that, though they might say yes, they don’t actually really like it. Human beings are funny creatures – we are very easily able to say one thing and think another. This is what it’s good for, because it spots what the target really thinks.

Moving to a different technology, you make your drones in the UK – and not somewhere lower cost like China. Why?
There are a number of reasons. One, because I live in the UK. Yes, we could easily have outsourced the production to anywhere in the world. However, we found that modern technology permits high-end engineering in very small spaces and with very little overhead and capital equipment commitment. For example, we are able to 3D print components for our drones, which are very rugged and high-end. It didn’t require us to send it elsewhere for manufacturing – though that would have been the case 10 years ago, no question. But now we don’t have to send it away and the turnaround time is really fast. We can 3D print in our office immediately and can make whatever small parts we need. For something bigger we can still have a turnaround within three days.

Are you focused less on mass market consumer drones and more on drones for the commercial market?
Exactly, we exclusively serve industrial users and we deliberately don’t sell to the general public. That’s partly because we expect the regulators will be much tougher on retail consumer drones going forward and will accommodate much greater usage in the industrial arena. It is much easier to manage the regulatory issues when there is a controlled environment, where the company owns their own property and where there is a specific reason to be using it. We specialised in this market and think it is a bigger market ultimately.

So what are the applications for your drones? Who are the clients?
People say to us what are your drones for, and we say we have no idea. Actually it’s very exciting. The way we built our drones was as a stable platform in the sky to which you can attach virtually any hardware, be it a camera or any accessory. If the market comes up with a device we can deploy it on our aerial platform. Similarly all the data goes from a stable platform in the sky to a stable platform in the cloud, meaning we deploy any software to that data.

The use-cases are almost endless. We are literally agnostic to types of customers or services.

So your drones are used as transporters?
We are finding that delivery is the least useful thing to do with a drone, although you can do it. The really valuable aspect is the data gathering.

Were you surprised that the US government gave approvals for DJI’s Government Edition range last week?
No, DJI was clever to announce it would manufacture these drones data-related components inside the US. That helped address the perceived problem.

Do you see your company competing with DJI in commercial drones?
We don’t see ourselves competing with DJI. We have a very different business model. We are all about the conversations with the client and continuous problem solving with the client. The hardware is just a means of delivering that. DJI has created the drone market and remains the leader.

So is it going to be more about services than hardware in the future?
No, I think there is always a place for a hardware business model and always a place for a services business model. They can do well simultaneously. Our expertise just tends to be in the relationship space, rather than the mass production space.
How about the issue of airspace and how drones will start to occupy more of it?
A lot of groups are working on air traffic control systems with a view to deconflicting – to make sure that commercial application drones don’t hit anything while they are doing their work. NASA is working on this, as is BAE Systems and many others. The question is which system will be adopted. But for sure one will be – we are not going to have this Wild West environment where there isn’t a system for much longer.

The other thing is controls on height and distance limits. We suspect at some point the regulators will realise it is very easy to put code into the systems that would make it so the drone cannot fly above 400 feet, which is the normal legal height limit in most parts of the world. It doesn’t totally fix the problem but it really reduces the risk of some novice consumer who flies it at 2,000 feet because it is just so exciting. If it can’t go above 400 feet it solves a lot of problems.

Reportedly Tencent-backed YH Supermarket is experimenting with drone deliveries of groceries to customers in Guangzhou. Is this a realistic use of drones? Could it eliminate the deliveryman in the next decade or is that science fiction?
It’s not science fiction but we have a long way to go. It may be that the drones that get used for that purpose are much more like the taxi drones that are being tested in Dubai. In other words, heavy lifters that can handle big payloads. The biggest constraint on the use of drones for delivery is their inability to handle weather. It sounds such a basic point, but I promise you most drones cannot handle any rain at all. Most of them cannot handle much wind. Almost all drones were designed for retail consumers and they sometimes don’t handle the basic elements very well. That’s why I think there has been slow going on having them fly over cities or doing industrial heavy lift tasks.

Which country or city do you see usage of drones being strongest?
What’s happening is specialisation. The Emirates have focused on the larger, potentially passenger carrying drones, and they are doing a great job of pushing the boundaries there. China has specialised in the smaller retail consumer drones and have done an amazing job of socialising drones to the entire world. Here in the UK I see companies like ours whose exclusive focus is on industrial drones. I’ve seen more high-end commercial focus than anywhere else. In the US everyone gave up on hardware, with the Americans more software-focused and generally disdainful of hardware. So in the US there is a tendency to develop sophisticated software and then try and put it in someone else’s drone.

During your keynote you mentioned the tech war between China and the US. Will it accelerate China’s push up the value chain?
The Chinese are moving up the value chain generally. That has been one of President Xi Jinping’s highest priorities: to move China out of the production of toys and into the production of higher value added, more sophisticated goods. So from toys to high-speed trains. They are progressing and the country they are going to be competing with most for engineering, high-speed trains, nuclear power plants and so forth is Germany. And China is gaining huge expertise in these areas thanks to the Belt and Road Initiative.

I don’t think a US tech war stops China from moving up the value chain. I think it speeds the process.

As Trump exclude these products and says more has to be made in America, then China has to make better quality products that are more attractive. It is not a bad result for China. It just means they need to change, which they needed to do anyway.

Would a US tech war against China be self-defeating for Washington?
It depends on what your goal is. If your goal is to make an announcement that garners you public support and votes going into an election, it will have been very successful. If your purpose is to permanently remove Chinese competition, it doesn’t work and it never will.

In your keynote speech you also predicted that Trump would do a deal with North Korea. You referred to it as his ‘Wikipedia entry’ – i.e. what he wants to be remembered for. A week later he walked across the border. So your timing was pretty good...
I still think that Trump would concede a number of other priorities in his negotiations with Xi if it meant he got a landmark deal on North Korea. Trump is a fairly unique president: he is prepared to negotiate with the Chinese on the basis of an overall package that includes many elements – trade, defence and security, energy policy and more. The Chinese know this and also that there is a window with Trump where literally everything is on the table – issues that other administrations would negotiate discreetly are all rolled by Trump into an overall bargaining strategy.

If a deal was done it would be a truly historic event and it would be Trump’s Wikipedia entry – as well as Xi’s too as it would solve an issue that’s been around for decades. If there were an announcement like that the markets would rally like crazy.
A poor quality image or evidence that the world largest hydroelectric dam is structurally unsound? That’s what Chinese netizens were asking earlier this month after photos from Google Earth appeared to show that the outer wall of the Three Gorges Dam had buckled.

Previous satellite images had shown the two-kilometre long concrete wall to be straight and without kinks. But a close-up of the barrier taken from Google’s eye-in-the-sky service hinted that the concrete structure had warped under the pressure of 40 square kilometres of water behind it.

The photographic discovery – which went viral on Chinese social media – was said to have been made by “Japanese geologist Hayashi”, although Japan’s media outlets such as Asahi Shimbun said the photos appeared to have originated from Twitter users.

Yet the fact that it became an instant trending news item in China underlines the shaky confidence in the huge infrastructure project.

The dam has always attracted a degree of suspicion because its approval was rammed through despite many dissenting voices. When the National People’s Congress was asked to rubber stamp the project in 1992, only 67% of the 2,633 lawmakers voted in favour, the lowest approval rate ever in China’s parliamentary body.

In 2011, five years after the primary structure was completed, China’s State Council under then Premier Wen Jiabao admitted that the dam had in fact contributed to environmental damage such as landslides, downstream water shortages and greater risk of seismic activity due to the weight of the water.

But in this particular case it seems the alarm was unfounded. The distortion – as seen on the Google images – was most likely a technical glitch, a consequence of the fact that all satellite photos are composite images glued together. If the images aren’t aligned, a straight-lined object can look as if certain chunks of it have shifted.

It is also possible that people online were further doctoring the images to create alarm. Indeed, as one expert speaking to ThePaper.cn pointed out “if the distortions shown in the photos were real, the dam would have collapsed already”.

The Three Gorges Corporation also put out a statement saying the dam “was second to none in terms of integrity”.

Displacement is “normal” for dams – which have to have some elasticity – but thousands of pieces of monitoring equipment had only detected vertical and horizontal shifts of between 0.2mm and 2.6cm, the state-owned firm said.

China’s Aerospace Science and Technology Corp also stepped in to help clear up the confusion by publishing a satellite image of the dam showing it to be straight.

The Global Times accused “foreign forces” of starting the rumours “to intentionally tarnish the project and the Chinese government”.

Yet at the same time there is a question to be asked about the impact of big dams in the era of climate change. Over 370 Chinese rivers flooded this year according to the Ministry of Water Resources, 80% more than average. In total some 20 million Chinese have been affected or displaced by this year’s heavy rains. The deluge has also caused $7.7 billion in damage, Xinhua said.

Yet at the same time China is home to 98,000 dams designed to prevent catastrophes like floods.

Some environmental experts say dams – especially large ones – will cause more problems as the weather becomes more erratic. They can deprive people of water downstream during dry periods but may then have to release large amounts of water in cases of heavy rain. Furthermore reservoirs have been found to produce huge amounts of the greenhouse gas methane as algae and other organic matter rots in the still water.

Perhaps this month’s headlines about the Three Gorges Dam will turn out to be yet another instance of ‘fake news’, but debates about the broader consequences of the giant structure will likely continue.
Round the clock

Tang Dynasty take on Kiefer Sutherland TV thriller proves massive hit

In the TV series *24*, Kiefer Sutherland plays agent Jack Bauer who, season after season, races against the clock to protect the American people against terrorists. The first season, which came out in 2001, was packed full of action, including an airliner exploding, an assassination attempt on a presidential candidate, the death of Bauer’s wife and the kidnapping of his daughter. The stylistic innovation: it all happened within a single 24-hour day.

The series was discontinued on American TV in 2014, after nine exhausting seasons. But it was reprised last month as the inspiration for a historical drama in China. *The Longest Day in Chang’an*, available for streaming on the online video site Youku, is set in the late Tang Dynasty (618-907), an era when the most prosperous kingdom in Chinese history began to decline. The drama occurs in the 24 hours that occur over the Lantern Festival (the fifteenth day of the first month, according to the traditional calendar), when the then capital of Chang’an (known as Xi’an today) is celebrating.

The show, which cost Rmb600 million ($94 million) to make, a hefty sum by local standards, follows Li Bi, a young government official (played by heartthrob Yi Yang Qian Xi), and Zhang Xiaojing, a wrongly condemned prisoner with a military background (actor Lei Jiayin). The series tracks them morning through night as they try to outwit a rebel force scheming to destroy the city. In the process, they unravel massive conspiracies that could take down the whole empire.

Although the narrative spans just a single day, the series is 48 episodes long (there are lots of flashbacks, which explains some of the length). And with the season about halfway through the reviews have been overwhelmingly positive. On Douban, the TV series and film review site, the show earned a rating of 8.6 out of 10, gaining praise as “ground-breaking” and “one of the most well written and carefully produced series in recent years”. Cao Xiaojing, a TV critic, also told People’s Daily: “While most people say the high production values are the reason for the success of the show – everything from the costumes to the set is made meticulously, with the goal of transporting viewers to the Tang Dynasty – the masterpiece is in the screenplay. The drama unfolds from the perspective of a seemingly unimportant character that is trying to defend his homeland. All the characters, even the minor ones, were given complex backstories. That is the reason, in my mind, the series is so wildly popular.”

The show has also unearthed some lesser-known history about the Tang Dynasty. “My intention is to showcase the beauty of Chang’an and its multi-ethnic culture,” noted Cao Dun, the director of the series. “Many people did not realise that at the time, 15% of the people in Chang’an were expatriates. So it was truly a thriving, beautiful international metropolis, where people from different races and countries came together.”

The Tang Dynasty employed more of an open-door policy than other periods in Chinese history, and cross-cultural contact was also more common. In fact, interracial marriages were not unknown. Some historians suggest the mother of
Tang Gaozu (566-635), the founder of the Tang Dynasty, was a Xianbei (a nomadic clan believed to be from present-day Mongolia). The founding emperor’s son Tang Taizong (598-649) was half-Xianbei too. So in other words, the Tang rulers were only partly-Han Chinese.

Chang’an also laid claim to being the largest city in the world during the period. It was said to be at least seven times the size of Constantinople, the capital of the Roman and Byzantine Empire, with a population of more than a million people.

Youku is now selling The Longest Day into other markets and the series is already streaming in Japan, Singapore, Malaysia, Brunei, Vietnam and the United States.

No country for old folk?
New report predicts pension scheme deficit by 2035

China introduced its first pension payments in the early 1950s as part of the Work Unit model – the Soviet idea that your employer or danwei would be responsible for housing, healthcare and looking after you in retirement.

But that model began to rupture with the economic reforms of the late 1970s. At about the same time, China introduced the One-Child Policy. Fast forward 40 years and the aftershocks of these two changes can be seen in China’s pending pension crisis.

According to a recent report by the Chinese Academy of Social Sciences – a leading think tank – the country’s provincial-level pension funds will run out of money by 2035. “The long-term financial sustainability of the basic pension system is worrisome,” it said.

Of course the government was aware of this problem long before the report was made public. In March during China’s annual parliament Premier Li Keqiang promised that pensions would be paid even if the coffers run low on cash.

“It would be very disappointing if decades of hard work cannot earn one a decent retirement,” Xinhua quoted him as saying.

But that – and other public pledges of a similar type – didn’t stop people panicking when the China Times published another article repeating the bleak pension predictions from the CASS report this month.

“So if you were born after 1980 you won’t get a pension?” posited another incredulously.

The debate became so fierce that that censors stepped in and removed the majority of the posts. And in the following days, state media ran a series of articles reiterating the government’s pledge to honour pension commitments, regardless of the state of the collections pot.

So how has China got to the point where its state-backed pension funds won’t be enough to meet demand? As with elsewhere in the world, the basic issue is that people are living longer and making more demands on the system.

In China there is also the added problem of a rapidly shrinking workforce due to the effects of the One-Child Policy. In the 1990s when provincial governments took over the responsibility for paying pensions, five people were paying into the pot for every person drawing out. Right now that ratio is 2:1 and by 2050 it will be 1:1.

According to the CASS report, the pension funds for urban workers – which currently hold Rmb4.26 trillion ($618.9 billion) – will continue to grow until 2027, before declining and going into negative territory by 2035.

The urban workers pension scheme covers some 400 million residents of towns and cities (there is a separate rural scheme) and it aims to pay retirees approximately 60% of an average local salary for
the rest of their lives. In places like Shenzhen that can be as much as Rmb4,400 a month – which is almost exactly the same as the basic payout on a UK state pension.

An additional problem with the urban pension fund is that it is administered at provincial level – meaning rustbelt provinces such as Heilongjiang and Jilin have lots of former workers claiming social security but far fewer younger workers paying in.

The CASS report said five provinces were already over the “warning line” in terms of facing financial difficulties with their schemes and the national government established a “central adjustment system” last year to move money from richer provincial pension funds to weaker ones.

In another move to boost the economy – but not helping with how much they put aside for the future, while older people in other parts of Asia are working beyond their official retirement ages.

The government is also expected to look at other solutions to the shortfall, including raising the retirement age from the year 2022. Women, who start receiving their pensions at 50, will see their retirement age pushed back by a year every three years until it reaches 60. Men will see their pension-claiming threshold raised to 65.

This follows a similar move last year by Vladimir Putin in Russia – although he rehashed an original plan to raise retirement ages for women to 63 by 2034 after a slump in his personal approval ratings. Increases in the retirement age aren’t likely to be greeted with enthusiasm by older Chinese either, when they start to take effect in three years.

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**World of Weibo: A little less Mac?**

Chinese consumers complain about shrinking burgers

The Big Mac Index, compiled by The Economist since 1986, is used to measure purchasing power parity across the globe. The index is named after McDonald’s most popular burger, which is sold in more than 100 countries. But a basic assumption of the index is that the Big Mac is made to identical specifications. And analysis published by the Huffington Post in 2017 suggested that not all Big Macs are the same: the US original has 550 calories versus 510 calories in the Norwegian version, and just 379 calories in Israel, for instance.

Now it turns out many people in China think the burger they are being served is smaller than it used to be. According to a survey by Guangzhou-based Southern Metropolis Daily, 58% of respondents complained that the fare from Western-style fast-food restaurants is getting smaller. KFC and McDonald’s are the worst offenders, where 27% and 24% of those surveyed believed that the burgers were subject to ‘shrinkflation’, meaning smaller portions sold for the same price.

“Not sure if the burger has got smaller. All I know is I used to need only one to feel full in the past, but I need three now,” commented one weibo user. “The size of the hamburger is comparable to my fist,” sneered another. “I can finish [a Big Mac] in just a few bites! Am I a pig?”

There were a few outliers, querying their compatriots’ sense of proportion. “The burger hasn’t got smaller, perhaps it’s us getting bigger?” argued another netizen.

McDonald’s denied that its burgers have been downsized, but attributed the impression to slimmer packaging. However, the basic data suggests that the Big Mac is different in calorie terms to its US-equivalent. In Hong Kong, the official McDonald’s online nutrition guide specifies a standard Big Mac to be 496 calories (the most calorific option on offer is the Cheesy Champignon Angus Burger at 644 calories). Across the border in mainland China the Big Mac is reported at 480 calories.

The quibbles about portion sizes at KFC don’t seem to have deterred consumers from eating at the more chicken-focused chain, however. In the first quarter, KFC added 191 new stores across the country, taking the total that its parent firm Yum China operates to 8,653. It also recorded a 5% growth in same-store sales. The Yum Brands spin-off is now owned by Fred Hu’s Primavera Capital and Ant Financial. Their rejection of a $17.6 billion takeover bid from Hillhouse Capital Group this time last year pointed to their bullishness on KFC’s China business.
Green tea and seafood are among a few of the many mooncake flavour variations you might be served across during the Mid-Autumn Festival, one of China’s most cherished festivals that falls on the 15th day of the 8th lunar month. Resembling an ornately decorated, circular flat pie, mooncakes are stuffed with lotus paste and sometimes custard and salted egg yolk. This year, however, a surge in egg prices could see market forces interfere with China’s love of mooncakes.

The mooncake custom has evolved through time. Legend has it that during the Tang Dynasty – following military victory against the nomadic peoples of Central Asia – a Turpan businessman offered cakes to the Emperor Taizong. The emperor gazed at the moon and shared the cakes with his ministers – with these ‘mooncakes’ henceforth being a staple of the festival.

Later during the Yuan Dynasty, another folk tale suggested rebel leaders distributed mooncakes to Han Chinese in the capital. Each of these cakes had within it a piece of paper with a message rallying them to stage an uprising against the Mongolian rulers during the Mid-Autumn Festival night.

Regardless of their origins, mooncakes are adored, not only in China, but in the wider Chinese diaspora too. Now is the peak time for mooncake production and in Hong Kong companies such as Maxim’s Group and Wing Wah are purchasing the raw materials to ramp up their baking ahead of the festival.

Yet this seasonal surge in the demand for eggs has coincided with unexpected yolk shortages.

Owing to a sharp drop in the supply of pork due to the spread of African swine fever, demand for poultry and eggs has subsequently soared. Pork, as one of the most popular meat choices among the Chinese, has been replaced with eggs and chicken by protein-lovers.

July in particular has seen higher volatility in egg prices – due also to hot weather negatively impacting the supply of eggs. Xinhua recently forecast the price of eggs would continue to surge, despite already having increased 17.5% since the beginning of the year. On July 11, the price of eggs reached Rmb4,725 per 500kg, a record high.

Eggs laid by hens are a vital mooncake ingredient. Adding to the problem, the price inflation has spilled over to duck eggs, the most common source of salted egg yolk for many mooncake varieties.

Some insiders predict an increase in mooncake prices when purchasing demand picks up in September and bakeries pass on some of their increased raw material costs. Traditionally it has been a lucrative niche for the bakery industry, worth around Rmb20 billion annually ($2.9 billion). At the premium end of the market a box of six mooncakes can sell for $80 at The Peninsula Hotel in Hong Kong. (For more on mooncakes and their various regional fillings see WiC383.)
Photo of the Week

Underwater: Team China competes in the synchronised swimming event at the world championships in South Korea

GE’s still bullish on China

“Global multinational companies are very willing to intensify cooperation with Chinese companies, and Sasac has made it clear it supports and encourages such cooperation”

GE’s boss Larry Culp tells Hao Peng, the head of the State Asset Supervision and Administration Commission (Sasac), that he is open to working with Chinese state firms, particularly on BRI projects. They met in Beijing on Monday during Culp’s first trip to China since he became GE’s CEO last October.

In Numbers

$40 trillion
China’s corporate, household and government debt as of the first quarter, making up 15% of the global total, according to the Institute of International Finance. The debt represents 303% of China’s gross domestic product in the first three months, up from 297% a year earlier.

$2 billion
The sum that ride-hailing company Didi Chuxing is looking to raise through selling new shares, the Wall Street Journal reports. That would give the Beijing-based firm a valuation of $62 billion, up from $56 billion in 2017. Didi is yet to make a profit.

39%
The year-on-year decline in China’s investment in renewable energy in the first half, Caixin reports. About $29 billion was ploughed into solar and wind projects, the lowest in six years, according to Bloomberg’s research arm. The reduced contribution dragged the global figure down by 14% compared to a year ago.

Rmb924.5 per tonne
The price of iron ore futures (for September delivery) on the Dalian Commodity Exchange on Tuesday. The price has doubled since the start of 2019, partly due to production cutbacks at major miners in Brazil and Australia.

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