Drone dilemma

Xi Jinping with Saudi King Salman bin Abdulaziz Al-Saud – the weekend drone attack has complicated China’s oil policy with Riyadh’s major rival, Tehran
The most discussed topic among China’s car drivers last week was where they could buy the cheapest fuel. That was because state-owned oil majors CNPC and Sinopec had squared up in a rare price war in many major cities. In some filling stations in Shanghai gasoline and diesel were being offered at a 20% discount to the standard prices. “The biggest promotion in 20 years” was how Shanghai Securities News put it.

The campaign was driven by two main factors: a supply glut of domestic fuel, coupled with global crude prices that had been placid for the majority of the year so far. CNPC and Sinopec are also alive to the need to defend their market share in the face of new competition from private sector firms and foreign retailers. And adding a new element to their rivalry at the pumps: coffee. That beverage got the public’s attention earlier this month when Sinopec decided to launch its own coffee brand.

Yet talk of lattes and discounted petrol was soon superseded by a dramatic change of mood that occurred last Saturday after a drone attack damaged Saudi Arabia’s major oil production facility.

Instead of discussing who had the cheaper fuel or the better coffee, the focus turned quickly to whether rapidly rising oil prices might add to inflationary pressures (already bubbling away in China because of surging pork prices). Also up for debate: whether an announcement that China was investing in Iran’s oil industry could further damage Beijing’s relations with Washington.

What happened in Saudi?
The Chinese were celebrating Mid-Autumn Festival, a time of family get-togethers, when a swarm of drones set the Khurais oilfield alight in the early hours of September 14.

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The attack was of a different magnitude, hitting some of the most important fields and refineries of Saudi Aramco, the kingdom’s oil giant.

Initial reports suggested oil flows had been disrupted by about 5 million barrels a day, or nearly half of projected daily output. That equates to about 5% of global crude supply. It was thought Aramco would need months to repair the damage.

Houthi rebels, which have been fighting a Saudi-backed military coalition in Yemen, claimed responsibility but Washington pointed fingers at Iran, which supports the Houthis. Without mentioning the Iranians by name, US President Donald Trump announced on Twitter that he had “reason to believe that we know the culprit” and he also signalled retaliation, saying that the US was “locked and loaded”, and awaiting verification of the attacker by Saudi Arabia.

Tensions in the Middle East have risen since the US tore up an international deal governing Iran’s nuclear development. Washington has reintroduced economic sanctions on Tehran, which has triggered a chain reaction of events, including a series of incidents over shipping in and around the Persian Gulf. The situation has also contributed to a worsening of the Sino-US tech and trade war as well, after Huawei was blacklisted in the US – and its CFO Meng Wenzhou detained in Canada – on allegations that it had breached American sanctions (see WiC453).

How did markets in China respond to the drone attack?

Last weekend analysts scrambled to make projections on how the market would react once trading resumed on Monday. Wang Nengquan, a senior energy researcher at SinoChem, highlighted forecasts that crude prices could even shoot back to more than $100 a barrel, although that prediction has turned out to be too aggressive – at least for the time being.

Brent crude futures, the international benchmark, surged as much as 19.5% to $71.95 per barrel at the open on Monday, the biggest spike ever, but oil contract prices closed the day up 14.6% at $69.02.

Many of the yuan-denominated oil futures on the Shanghai International Energy Exchange (INE), which started trading in the city’s free trade zone last year, also edged up by the 8% daily limit.

The most actively traded contract – known as SC1919 – closed up 6% higher on Monday at Rmb470.3 per barrel (equivalent to $66.30 a barrel).

The reverberations soon reached the stock markets too. After falling to an all-time low of Rmb6.02 in the final week of August, the A-shares of PetroChina (CNPC’s key listed unit) rebounded nearly 4% on Monday.

Sinopec notched similar gains, while CNOOC, another state-owned energy major, surged more than 8%.

Other stocks headed in the opposite direction: weighed down by concerns over higher fuel costs, the shares of major airlines such as Air China nosedived, for instance.

But the A-share market in general has been fairly resilient over the week, dropping only a handful of points. It helped that sentiment was stabilised after indications from Aramco that it would only need a few weeks to get back to its full capacity. All the same, commodity market volatility has led to major losses for some of the Chinese majors in the past. A slew of airlines and shipping firms reported hefty hedging losses in 2008 when Brent hit an all-time high. Even in a calmer period for oil prices last year, Sinopec rattled investors by reporting a Rmb4.65 billion loss on hedging in the fourth quarter.

What about the wider impact?

One concern is inflation, which is already running at its quickest pace since 2013.

The consumer price index (CPI) rose 2.8% year-on-year in August (the same rate as in July) with a vicious outbreak of African swine fever driving pork price nearly 50% higher (see page 8). The oil price hasn’t been as high on Chinese planner’s agenda since it eased off from $100 a barrel in September 2014. But a return to triple digit prices would complicate the government’s efforts to keep the econ-
Talking Point

omny growing above 6%.

“Pricier oil, on top of out-of-control food prices, makes devaluing the yuan even riskier than it already was,” the Wall Street Journal suggested. “Expensive oil makes looser monetary policy riskier too.”

Other analysts were anxious about how events might unfold over the medium term, especially in the political relationships between the parties concerned.

“The attack on Saudi was a very sensitive event coming at a very sensitive time,” SinoChem’s Wang wrote in an article published in Caijing magazine, noting that the drone attack came just after Trump had sacked his hawkish national security advisor John Bolton, amid speculation that the president might hold talks with Afghanistan’s Taliban plus Iran.

“How would it affect the Americans’ relations with Iran and Saudi?” Wang further reflected of last Saturday’s events. “More details and more time is needed before drawing a conclusion.”

Is China turning to Iran?

Beijing has tried to position itself as a neutral party in the Middle East for years. That said, the Chinese haven’t taken much of the initiative in brokering peace efforts in the region, instead finding themselves befriending countries that are deadly rivals.

Beijing regards both Saudi Arabia and Iran as key partners in the Belt and Road Initiative, for instance. And just weeks after the Saudis severed diplomatic ties with Iran in early 2016 (tensions flared sharply following the execution of a popular Saudi cleric in Iran), Chinese President Xi Jinping made state visits to the capitals of both nations.

The tour saw China inking separate “comprehensive strategic partnerships” with both countries. The deals involved loose commitments from China to invest in both nations over an extended period of time. Yet it was the arrangements with Tehran that have been attracting the most attention.

In the wake of a visit by Iran’s foreign minister to his Chinese counterpart Wang Yi last month, Petroleum Economist reported that an updated strategic partnership would see China invest $280 billion in the Iranian energy sector over the next five years (see WIC466). There will be another $120 billion of investment in Iranian transport and manufacturing infrastructure, the energy magazine revealed. And as the main buyer of Iran’s scaled-up oil output China will get a reported 12% discount on benchmark crude prices.

These trades will be denominated in renminbi and “other currencies” rather than the US dollar, the customary choice for oil sales.

The Petroleum Economist report prompted international media to question whether Beijing now found itself in a delicate position amid the tensions generated by the Saudi attack – and the US accusations of Iranian culpability.

What’s clear is that the Iranians are counting on the Chinese as a key customer, allowing them to ride out some of the impact of the US sanctions. At current output, the Chinese could import virtually all of Iran’s oil and gas production, which might also grow substantially with investment from the Chinese state oil firms.

The problem for Tehran is that the gargantuan contracts signed by Chinese diplomats overseas don’t always come to fruition. Sometimes they get bogged down in detail once they leave the negotiating table: the latest deal with Iran has been under discussion since at least 2016, for instance, as part of a wider agreement to expand bilateral trade to more than $600 billion over a 10-year time frame.

Projects are also prone to stops and starts as the operators wrangle over the terms. However, at least a hundred large Chinese companies are already investing in Iran’s key economic sectors, Alex Vatanka wrote in The Diplomat this month. And there are specific signs of movement in the energy industry as well. In August Iran’s Ministry of Petroleum reported that the Chinese had “re-engaged” in three key projects in the oil and gas sector: the South Pars gas field; the Yadavaran oil field; and the Jask oil terminal.

Iran’s President Hassan Rouhani shakes hands with Chinese leader Xi

Photo: Reuters
How will the current situation affect China’s energy security?

Any disruption in daily supply is a concern to the Chinese, who surpassed the US for the first time as the world’s biggest oil importer in 2017.

China topped the chart again last year with a 10.1% increase in imports to 462 million tonnes. It also takes about 15% of Saudi Arabia’s exports – the kingdom has been its biggest supplier over the past two years, according to Securities Daily. That means that China is also likely to be the most affected country, should Aramco’s production capacity be materially disrupted.

Washington is less concerned about an oil shock, Securities Daily believes, because the US possesses a sizable strategic reserve that comprises more than 700 million barrels. The Chinese government doesn’t provide regular updates on the extent of its own strategic oil reserve (which we first reported on back in 2009, after a major purchase from Syria; see WiC6), although it is generally understood that Beijing has been adding to its reserves in periods when global crude prices were languishing at bear market levels. However, it still trails its rivals: in March the Global Times reported that both Japan and the US were believed to have built up reserves equivalent to at least 140 days of net imports. It said China’s reserve held only about 40 days of net import cover (90 days has been the international standard).

“The attack [on Aramco’s oilfield] has once again highlighted the importance of building up our strategic oil reserve,” Securities Daily said.

In the longer term, the Chinese want to secure more supply from their own oil firms and Securities Daily also reported on a high-level meeting of the National Energy Administration back in May, when the state giants were urged to step up their efforts in oil and gas exploration. For example, CNPC was tasked with spending at least Rmb5 billion a year (up from Rmb500 million) between 2019 and 2025 on exploration.

Despite higher levels of investment in previous years, imports still accounted for up to 70% of China’s oil consumption in 2018. That was up from 60% in 2015.

Simply put, rising demand for energy combined with a continued reliance on foreign supply has Chinese planners feeling insecure. Perhaps that puts more onus on them to establish deeper-rooted relations with countries like Iran. And certainly, if the Iranians get the investment promised, their oil and gas output would spike significantly. Some of this could dovetail with Beijing’s Belt and Road infrastructure plan: Iranian gas might be funnelled through the Turkmenistan-China gas pipeline, for instance. That would be another positive for Chinese energy strategists in skirting the dangers of a maritime blockade of the Gulf and in reducing Chinese reliance on US-friendly suppliers like the UAE, Brunei and Saudi itself.

On the other hand, the opening up of a major new supply line of Iranian oil would incense the Trump administration, which is conducting a policy of ‘maximum pressure’ against the Iranian regime. Despite regular rebukes that Americans sanctions are an affront to the sovereign rights of other nations, the Chinese have paid attention to Washington’s warnings against unrestricted commerce with Iran. The figures for the first five months of this year show that trade with Iran was down significantly on the same period in 2018 – and that was before the end of a waiver period that allowed the imports of some Iranian oil.

The question now is whether Beijing is going to plough more investment into the Iranian energy sector and risk the repercussions of a wider clash with Washington. Perhaps the trade row will make them less conciliatory in their approach than they have been in the past. Alternatively, the issue might just be fudged by...
both parties as they look for a solution to their own disagreements. Asked by reporters for clarity on the $400 billion deal with Tehran, foreign ministry spokesman Geng Shuang seemed to downplay the news, saying he wasn’t able to provide an answer and confirming only that “China has very good relations with Iran”.

Meanwhile the BBC reported on Wednesday a Saudi government claim that there was Iranian “involvement” in the attack based on analysis of the weapons’ debris.

**And finally: why is Sinopec getting into coffee?**

Away from oil price volatility, CNPC and Sinopec have been looking for ways to defend their leading share of China’s retail market for petrol. Foreign players have started to get licences, including Gulf Oil, whose first fully-owned petrol station in Guangzhou debuted with fuel priced 25% below Sinopec’s last year (although it would soon raise prices nearer the reference levels set by the National Development and Reform Commission; see WiC427).

The newcomers have been looking for other ways to monetise their new petrol stations, including BP’s “Wild Bean” coffee brand, which has also been introduced to Chinese customers. Shell offers coffee at its in-store cafe “deli by Shell” too, selling about 250 million cups of coffee worldwide every year, according to ThePaper.cn.

The Chinese incumbents have taken note: CNPC is offering coffee at its uSmile retail stores and Sinopec launched its own coffee brand “Yijie” this month. The name loosely translates into “Easy Jet” and is a pun on the brand name of its retail stores, Easy Joy.

China’s best known coffee start-up is Luckin. Positioning itself as a challenger to Starbucks, it took just three years for the Nasdaq-listed firm to grow into a national chain with more than 3,000 outlets (for more on Luckin, see page 9). Yet Luckin is a veritable minnow compared to the 28,000 outlets housing Sinopec’s petrol pumps. Adding an Easy Jet cafe to each would create one of the world’s biggest coffee chains (Starbucks has just over 30,000 outlets).

Up to this point non-fuel sales have accounted for about 5% of revenues at Sinopec’s petrol stations – compared with more than 50% for the likes of BP and Shell. That suggests the diversification has a lot of potential upside for Sinopec’s investors. Then again, Sinopec has a tendency for PR blunders (see WiC207) and already some of its customers have mocked its coffee online – likening its taste to oil.

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**Bring your own lunch to the Magic Kingdom**

The Chinese are increasingly protective of their consumer rights. Just ask Disney, which recently reversed a policy preventing visitors from bringing their own food into its theme park in Shanghai.

The controversy started after a law school student surnamed Wang and her friends were stopped from entering Shanghai Disneyland because they were carrying snacks in their bags. Their request for a ticket refund was rejected and they ended up dumping the food before going into the park (the incident happened in January).

The irate Wang then launched a lawsuit against Disney last month saying it was applying a different standard to visitors in Shanghai to the one that it employed at its parks in the US (where food purchased outside can be brought in).

With the Sino-US trade war still raging, it wasn’t the best time for the US multinational to be riling its Chinese customer base. Sure enough, calls were soon growing on social media for a boycott of the Shanghai park. And with poor publicity in the local newspapers too, Disney soon decided that it was better to relent on the rules than insist they were respected.

According to the People’s Daily new regulations came into effect last Thursday which allow visitors to bring their own food and beverages into the Magic Kingdom. However, there were still a few provisos, including a continued ban on food that needs to be heated (like instant noodles). Likewise Disney specified that watermelons were still on the forbidden list (because they need to be cut with a knife). So too were smelly foods such as durians and stinky tofu.
Huawei changes tactics

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

1. Huawei is taking a new tack in its bid to defuse its long-running row with Washington by offering its 5G technology for licencing. That would mean that if the US government doesn’t want Huawei to install or operate the new standard, American companies could do it instead. “For a one-time fee, a transaction would give the buyer perpetual access to Huawei’s existing 5G patents, licences, code, technical blueprints and production know-how. The acquirer could modify the source code, meaning that neither Huawei nor the Chinese government would have even hypothetical control of any telecoms infrastructure built using equipment produced by the new company,” The Economist summarised.

2. In another move to counter a surge of almost 50% in pork prices last month, the Chinese government has released 10,000 tonnes of the “strategic pork reserve” into the market. The meat – much of it sourced from other countries – was auctioned online on Thursday, with companies restricted from bidding for more than 300 tonnes each. Bloomberg has also reported that China wants to increase pork imports, including from the US, in a bid to stabilise prices. However, the country is facing a 10 million tonne pork deficit this year, more than the roughly 8 million tonnes in annual global trade, according to Vice Premier Hu Chunhua.

3. Officials in Shenzhen are promoting a draft policy that requires all new vehicles registered for ride-hailing services to be fully electric, Shenzhen Special Zone Daily has reported. The draft rules included other measures, such as requiring ride-hailing firms to make their pricing rules transparent and to identify the number of available vehicles within a 3km radius of users. Caixin reported local complaints that some ride-hailing companies have used algorithms to charge varying fees depending on users’ personal profiles.

4. The Solomon Islands has formally announced that it will be switching its diplomatic recognition from Taiwan to China, leaving Taipei with just 16 diplomatic allies. The Solomons is the sixth country to have cut ties with Taiwan since the Democratic Progressive Party’s Tsai Ing-wen was elected as president in January 2016. The remaining holdouts are: Belize, Guatemala, Haiti, Honduras, Kiribati, the Marshall Islands, Nauru, Nicaragua, Palau, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Eswatini (formerly Swaziland), Tuvalu and the Vatican City.

5. China is planning to unveil a supersonic spy drone at its National Day parade on October 1, according to the South China Morning Post. Photos of at least two types of the new drones at rehearsals for the parade have excited military analysts, who said they could be used to monitor the US fleet in the South China Sea or Western Pacific. But personal drones will be grounded in Beijing for at least two weeks around the National Day holiday, Associated Press added. Also on the banned list during the celebrations: the flying of kites and pigeon racing, both of which are popular with the locals.
Pork is China’s favourite meat. The country’s 1.4 billion people consumed 56 million tonnes of the stuff last year – equal to the rest of the world combined.

But as the Communist-led country prepares for the seventieth anniversary of its founding on October 1, prices are skyrocketing because of African swine fever and a crackdown on small scale farmers. To help keep people in celebratory mood the government has begun releasing pork supplies from its strategic reserves. At a market in Beijing, where pensioners gather of a morning to sing revolutionary songs, one man told WIC he had wanted to buy a cut of fatty pork to make Mao Zedong’s favourite dish – braised pork belly. “I bought mince instead. I can make it go further,” he explained.

African swine fever arrived in China last summer. Some 1.2 million animals have been culled in response and many more have died. According to figures from the Ministry of Agriculture and Rural Affairs China’s pig population was 32% smaller in July than it was at the same time last year.

It didn’t give exact figures for the number of animals lost but at the end of 2018 the ministry said China was home to 400 million live swine. Different media outlets have calculated a drop of between 60 million and 100 million hogs since the epidemic first took hold. As a result, the price of pork rose 47% year-on-year in August, but many are predicting it could go higher still.

Government officials, on the other hand, are claiming that the price increases have now “stabilised”.

Chinese consumers, who have been sharing stories of pork inflation online, pointed out that “stabilising” isn’t such a good thing if prices are already exceptionally high. Some shared images of necklaces made from pork belly to show what a “luxury” the meat has become; others said their local restaurants were no longer handing out printed menus because the price of any pork dish was changing daily.

Life Times, a publication part-owned by the People’s Daily, helpfully suggested people should simply eat less pork. “Excessive consumption of pork will make it easier to gain weight, and cholesterol will increase the burden on our blood vessels and heart,” it warned.

The most recent figures from the Ministry of Commerce show that the wholesale price of pork is Rmb34.54 ($5.1) a kilo, while beef remains higher at Rmb64.54 a kilo.

To help slow the rise in price ahead of the seventieth anniversary, several provincial governments have begun releasing meat from their frozen pork reserves.

This week the central government announced it would also sell 10,000 metric tonnes from its reserves to bring down prices.

The pork – all foreign-purchased – was auctioned online on Thursday afternoon.

“No transaction shall exceed 300 tonnes,” a notice from the China Merchandise Reserve Management Centre, the state-owned company that manages the stockpile, said.

Twenty-nine regional governments also increased the amount of money they give as food subsidies to students, the sick and the elderly to help cover the price rises. And the Ministry of Transport scrapped highway tolls for trucks carrying pigs and pork products.

However, the pig population is unlikely to bounce back soon. Sows take six months to reach sexual maturity and with so many wiped out by the epidemic it will take years to rebuild the nation’s herd.

In addition to the damage done by the disease there is the fact that many small-scale pig farmers have been put out of business in recent years by new rules designed to enhance animal health and environmental safety.

While the reforms might have helped stop some of the spread of the fever, they led to the pig population being already reduced going into this crisis.

One of China’s vice-premiers Hu Chunhua told reporters last month that China faces a 10 million tonne pork shortfall this year. That’s more pork than is for sale in global export markets.

When the Year of the Pig ends on January 25 Chinese consumers will still be paying more for their pork dumpling fillings than they expected when the year began.
In early September, nine coffee drinkers came together for a blind tasting – hosted by a consumer group in Hangzhou – to judge six different coffee brands sold in the city. To their surprise, coffee from Family Mart, the Japanese convenience store, was ranked first. Even more surprising, Starbucks and Luckin Coffee, the domestic coffee chain that is looking to topple the US coffee giant in China, came respectively second-to-last and last in the taste test.

After the results were published, critics were quick to comment: “Starbucks, Costa [which tied with KFC for second place] and Luckin Coffee are the professionals when it comes to coffee, while the remaining brands [McDonald’s, Family Mart and bakery Casa Miel] are considered more or less amateurs. This is like judging Yao Ming [the former basketball star] and Pan Changjiang [a comedian] to see who can jump higher, the result should have been very obvious,” wrote ZnCaijing, a finance portal.

Luckin Coffee, valued at about $5 billion after going public on Nasdaq in May, must now be hoping that its tea offering will be more appealing to critics’ tastes. Early this month, the company announced that it will spin-off its tea business from its coffee operation. The new unit will operate its own brand as Xiaolu Tea, or ‘Fawn Tea’ in English. It will also runs its own physical stores, as well as an online app for deliveries.

Luckin only started selling tea-based beverages at its 3,000 stores around the country in July.

Unlike Luckin’s coffee brand, which concentrates on first and second-tier markets and targets white-collar workers (that mostly want to grab-and-go) Xiaolu Tea will focus on smaller cities. The concept requires more retail space allowing consumers to sit, mingle and relax.

More importantly, Xiaolu Tea will adopt what the company calls a “new retail partnership model”, which effectively is a franchising approach.

An operating partner of Xiaolu Tea will be responsible for identifying a store location and taking on most of the expenses of running it, such as interior design, staff costs and rents. Luckin’s head office will provide brand marketing, product development and supply chain management expertise.

Luckin will not charge a franchise fee in the initial stage. However, the company will take a certain percentage of profits once the franchisee breaks even.

Industry observers are mostly supportive of the move. While the coffee market in first and second-tier cities has reached a period of “explosive growth”, reckoned Wang Guoping, an industry analyst, tea-based products are much more popular in third- and fourth-tier cities, where there is much less competition.

Still, the fact that Luckin chose to expand its new venture via the franchise model also suggests that the three year-old firm has less spare capital to deploy – even after raising $560 million from its New York listing.

Luckin has been growing rapidly but also burning through cash at a dizzying rate. In the second quarter alone, it posted a net loss of Rmb681.3 million ($99.2 million).

“Investors are very generous: as long as you have a good story, they will give you all the capital you want. But they are also very ruthless: once the bubble bursts, they are the first to leave. The day Luckin announced its second quarter results, its share price fell almost 17%,” 36kr, a tech portal, commented. “So right now, what Luckin needs is a new story that will help maintain its growth rate. That is why it is now betting so heavily on Xiaolu Tea.”

Still, Luckin is not the first brand to separately target coffee and tea. Back in 2017, Starbucks launched the specialty tea brand Teavana across the US, focusing mainly on high-end shopping malls. But sales were so disappointing that by early 2018, the coffee giant had closed all 379 Teavana stores.
When Naspers elected to spin off its international internet assets into a new entity earlier this year, it decided to call the company Prosus: a derivation of the Latin word for ‘forwards’. South Africa’s largest listed company subsequently created one of Europe’s most valuable firms when Prosus debuted on Amsterdam’s Euronext with a €123.7 billion ($136.8 billion) market capitalisation on September 11.

Naspers’ management clearly wants equity investors to associate Prosus’s “forward” branding with the returns it hopes to make from its portfolio of global technology companies. Yet so much about the wider media’s reaction has been focused on a world heading into reverse. For while the company itself epitomises globalisation, that concept has been somewhat in retreat, leading some to ask whether Prosus is best suited to an economic landscape where national and tribal identities are mattering more again.

For Chinese newspapers the answer is clear. They highlight how Prosus is effectively a proxy for their national champion, Tencent. That’s because Naspers is Tencent’s largest individual shareholder with a 31.1% stake. That stake, in turn, accounts for just over 80% of Prosus’s net asset value (the other 20% of the NAV comes from an assortment of fast-growing but loss-making internet companies from Russia to Brazil).

In fact, the main reason for listing on Euronext is because Tencent’s soaring stock market valuation has caused problems for Naspers back home in South Africa. Prior to the spin-off, Naspers had ballooned to 24.4% of the index holding the leading South African blue chips (the FTSE/JSE Top 40), forcing some fund managers to cap their holdings due to concentration risk.

This was one of the reasons why a valuation gap of up to 30% had opened up between Tencent and its largest shareholder. Naspers’ solution was to carve out 27% of its equity into Prosus, offering it to existing shareholders on a one-for-one basis before listing by introduction in Amsterdam.

Chinese social media commentators hone in on the fact that Naspers has owned Tencent for 18 years and initially purchased a 46.5% stake in 2001 for around $30 million at a time when other funding sources were closed to the internet firm. More importantly, over the years it has resisted the temptation to exit what has turned out to be the most lucrative tech investment in history.

On the other side of the world, European newspapers highlighted that Prosus had become the continent’s largest tech company (at least for a few hours until its market value fell below Germany’s SAP again). The Financial Times headline read “Prosus debut creates European tech giant” while the UK’s Daily Telegraph went with “Meet Prosus: Europe’s new tech giant”.

Social media commentators took issue with both headlines, querying what’s European about a company that derives nearly all of its revenues from outside the continent. Others flagged Naspers heritage as a publishing company set up in 1915 as a mouthpiece for South Africa’s Afrikaners.

Indeed, in some ways Amsterdam was a natural listing venue for the company because it brings it full circle. Naspers was founded by descendents of the first Dutch settlers who landed on the Cape of Good Hope only a few decades after their compatriots at the Dutch East India Company (Verenigde Oostindische Compagnie) established the world’s first modern securities exchange in Amsterdam in 1602.

Prosus certainly gives current-day investors greater access to Tencent’s equity story and more broadly to China’s rise. That’s particularly the case for European retail investors, whose trading focus is often restricted to their home continent.

In one stroke, Prosus has entered Europe’s top 15 by market capitalisation. Top of the rankings currently are Nestle and Roche from Switzerland, followed by Royal Dutch Shell. Prosus joins the pack as a particularly unusual animal: its parent’s DNA is European and its scope is multinational, but if Prosus’s identity is defined by its biggest source of income then it is most definitely Chinese.

Indeed, another way of looking at the new firm is as a European dual-listing for Tencent.
Advances in the world of computing and coding would happen a lot more slowly were it not for the Free Software Movement started by Richard Stallman in the 1980s. Frustrated by the silo mentality of software developers at the time, the Harvard-trained computer scientist created a source code sharing platform called GNU. He also came up with the principle of “copyleft” (as opposed to “copyright”), which required users to distribute all modified codes should they make changes to GNU-licenced software. A monument to the project’s success is Linux, the open-source kernel that underpins a raft of operating systems including Google’s Android.

Today, open source is no longer regarded as a rebellion against big software developers – and their monopoly-style ‘rents’. It has become a flourishing business itself, spawning multi-billion dollar companies such as Red Hat and MuleSoft that are coveted M&A targets. But when Shenzhen-based Huawei Technologies revealed plans to open the stack of its fifth-generation (5G) communications technology for a one-time fee, few if any observers saw the move in a purely financial light. Most consider it a tactical gambit by a telecoms giant that has been rolling with the punches in recent months after being blacklisted by a hostile US government.

In his recent interviews with The Economist and the New York Times, Huawei’s boss Ren Zhengfei emphasised that acquirers of Huawei’s 5G platform – comprising existing patents, licences, technical blueprints and production know-how – would be given the liberty to alter the source code. The implication is that no single party – including Huawei or the Chinese government – could have control over the 5G telecoms infrastructure built with Huawei’s input.

Put differently, the US and its allies could theoretically expedite their 5G development with fewer concerns over information security as the network could be constructed independently of Huawei.

(As it lacks an indigenous 5G networking manufacturer, the US currently has to rely on suppliers such as Nokia and Ericsson that sell products that are far more expensive than those offered by Huawei. The latter has ploughed over $2 billion into research and development for such next-generation technology which is viewed as strategically critical as 5G networks are set to be the backbone of the emerging ecosystem known as the Internet of Things.)

The many queries that Western media sources have raised regarding Huawei’s bold move include whether the Chinese company is sincere about sharing its tech secrets and which third party – Samsung has been mentioned – might risk stepping forward as the buyer.

“It’s like buying a house. Of course you’ll change all the locks when you move in. You can even renovate and build new walls. But you may never find all the surprises the previous owners left behind – and someone else will always have the blueprints for where you live,” Breaking Defense, a New York-based
digital magazine, wrote of Huawei’s offer. It also drew attention to the high costs that Huawei’s licensees might then incur due to the need to “root out hidden backdoors” and “bring its vulnerable, buggy firmware up to Western standards”.

Ren’s olive branch came four months after the Trump administration banned Huawei and its affiliates from procuring US technology without special approvals, alleging espionage and other national security risks (see WiC453). Washington is also pressing other governments to shun Huawei, threatening the UK, for instance, that it would review its intelligence sharing policy should Huawei’s 5G gear be adopted in British networks.

Of the $70 billion that Huawei spent on component procurement last year, around $11 billion went to American producers. These included Qualcomm, Intel and Texas Instruments, that supply Huawei with chips; Synopsys and Cadence Design Systems, with chip-design tools; Skyworks Solutions and Qorvo, with high-end radio frequency technology; and Google and Microsoft, with software. A number of chemical companies also help Huawei indirectly to develop advanced panels and semiconductors, according to Japan’s Nikkei Asian Review. At the most recent count over 130 companies in the US are still hoping to do business with Huawei, based on the number of applications submitted to the Department of Commerce seeking approvals.

Ren expects $30 billion will be shaved from Huawei’s revenue this year due to the friction with Washington. However, he added that Huawei will avoid losses as both its main operational, thanks to the alternative it has found to the US suppliers removed from its supply chain.

been handed a once-in-a-lifetime opportunity to move up the ladder,” Roger Sheng, a Shanghai-based tech analyst at consultancy Gartner, told the Japanese magazine. “Even if the US later allows Huawei to use American components, it’s never going to go back to the old days, as if nothing had happened,” he added, suggesting the shift from buying US products could outlast the trade disputes.

In the software space, Huawei is trying to popularise its self-developed Harmony operating system in order to limit the impact of being excluded from Google’s Android ecosystem. Huawei’s deputy chairman Ken Hu told reporters on Wednesday that its grand scheme is to invest $1.5 billion to grow Harmony’s developer base from the current 1.3 million to 5 million in the next five years.

It faces hurdles: the South China Morning Post quoted some programmers’ complaints that Huawei’s newly released Ark Compiler – which is supposed to make it easier to port Android apps to Harmony – “is not even half-finished” and doesn’t work well.

Huawei’s reshoring is not limited to its supply chain. On September 12 the company announced another bold plan: to issue its first onshore bonds. The first batch, in two tranches, will be worth a total of Rmb6 billion (with a potential Rmb14 billion to follow). Some brokers believe Huawei’s fundraising are sign of financial distress, even though the company is still reporting robust results. Last year it recorded a net profit of Rmb59.3 billion on revenues of Rmb715.2 billion, according to its bond prospectus. For the first half of this year, it booked revenue growth of 23% to Rmb401.3 billion as its gross profit margin improved across all business divisions. It retained Rmb249.7 billion of cash in June.
When German robotics firm, Carl Cloos Schweisstechnik, celebrated its centenary this year, the tagline was “pioneers of welding: a story with a future.”

Its employees now know that much of that future is likely to be shaped in Nanjing rather than their hometown of Haiger in Hesse.

Just a few months after that centenary the family-owned firm announced that it was selling out to Shenzhen-listed robotics company Nanjing Estun Automation and private equity group, China Renaissance Capital.

The price tag was €196 million ($218 million), slightly more than Estun’s Rmb1.46 billion ($207 million) in revenues last year.

The timing has been a surprise to some, given the German government’s commitment to an ‘Industrie 4.0’ strategy designed to reinforce the country’s advanced manufacturing sector. Instead, it looks more like another case of ‘Made in China 2025’ getting the upper hand, with Estun grabbing the German firm in a bid to climb the rankings in the robotics industry.

Chinese investors reacted positively to the takeover: when Nanjing-based Estun resumed trading on September 9, the stock went limit-up. However, social media commentators have been more divided, noting Midea’s disappointing experience with Germany’s Kuka following its €4.6 billion acquisition in 2016.

In 2018, net profits at Kuka plunged more than 85%. A downturn in the automotive sector – a key client – didn’t help, but the situation was made worse by disputes between Kuka’s Chinese owners and its German CEO, who was subsequently replaced (see WiC459).

“Acquisitions fail,” concluded one of the more disparaging netizens. “Just look at Midea’s acquisition of Kuka.”

Reviewing the Cloos takeover, another added: “If this company is a world leader with a great order book, then it should be a wonderful cash cow. So how can it be acquired by a small Chinese business?”

The German press had questions too, with industry publication Automation suggesting that the sale was initially a surprise because Cloos has been doing so well. Unlike some of its competitors it isn’t as exposed to the auto sector, with a wider portfolio of clients in construction machinery, rail, energy and agriculture.

However, the family decided to sell because the third-generation hasn’t been as actively involved as its predecessors and they wanted to negotiate a good price from a position of strength, Automation concluded.

Estun says that Cloos will maintain its existing management team at its Haiger headquarters. But it will also want to leverage German know-how to boost sales in China’s brutally competitive local landscape, where the emergence of more than 2,400 robotics companies has been putting heavy pressure on prices.

Welding – an area where Cloos specialises – makes up about a quarter of the Chinese robotics market, behind loading and unloading applications at 44%, Georg Stieler, a sector specialist, told Automations Praxis, another industry journal.

The survivors in the sector should profit from a huge increase in demand over the medium-to-longer term. China accounted for 36% of global robotic sales in 2017 but the government wants a ratio of 150 robots per 10,000 workers by 2020, significantly more than the 97 in 2017, according to the International Federation of Robotics.

Another governmental goal is that 70% of those robots come from Chinese suppliers by 2025, compared to a quarter in 2017 (foreign players include FANUC and ABB – with the latter breaking ground this week on a new $150 million plant in Shanghai which will open in 2021 and be able to make 100,000 industrial robots per year).

The figures in China are skewed by the automotive industry, which deploys a higher-than-standard ratio of about 500 robots per 10,000 workers. Other manufacturing sectors such as electronics have a much lower robot penetration – and these are the sectors which are set to witness the sharpest jump over the next few years. However, in the nearer term, the Sino-US trade war and China’s associated economic slowdown are likely to dampen enthusiasm in the domestic robotics sector: another reason why Estun has sought to diversify overseas via its capture of Cloos.

Estun: Vorsprung durch Technik?

Photo: Imagine China
When it comes to Geely’s love of all things German the sky has literally no limit. This week Li Shufu’s firm invested in flying-taxi start-up Volocopter – its second German purchase in as many years after acquiring a 9.7% stake in Daimler.

Daimler also took part in Volocopter’s $55 million fundraising round, Chinese news portal Guancha reported, which will give each firm a 10% stake in the Bruchsal-based company.

Founded in 2011, Volocopter inked a partnership with Dubai in 2017 for airborne taxis. Following Geely’s investment, it is expected to commercially launch in three years. There are also plans for the German firm to bring its flying cars to China with Geely, given Li said the investment is another step in its wider expansion into “electrification and new mobility services”.

That makes the Geely-backed Volocopter a direct rival of EHang, a Chinese company focused on developing and deploying autonomous electrical VTOLs (vertical take-off and landing vehicles), which is already building its first operational network of air taxis in China.

EHang was chosen at the beginning of the year by China’s Civil Aviation Administration to operate a pilot scheme in Guangzhou. It is now in the initial stages – testing the vehicles and the ‘vertiports’ it will need to support the operation.

EHang launched an aircraft carrying two passengers in Vienna this year and separately, flew a vehicle from its staff dormitory to a test pad in Guangzhou (the journey time was two minutes).

By the time the technology is fully mature, the company believes that its vehicles will be able to take passengers the same distance in three minutes that currently takes 30 minutes by road.

To the layman EHang’s e-184 passenger aircraft looks like an outsized drone. With eight rotors, it takes off and lands vertically. Inside the cockpit, there is a seat for a passenger, while a large tablet installed in the control panel allows the traveller to punch in their destination. The e-184 can reach speeds of 100 km/hour with a battery life of up to 25 minutes. A newer model is expected to carry two passengers and have a battery life of up to 40 minutes.

Cheerleaders for the technology say that compared with driverless cars these new autonomous flying vehicles have a big advantage: they operate in wide-open spaces, as opposed to narrow roads filled with pedestrians and other vehicles. Moreover, highly procedural tasks like autopiloting are where these machines typically excel.

The biggest technological hurdle facing the industry is how to improve battery life. While the lithium-ion battery is optimal for the initial commercialisation phase – given its long cycle life and strong charging power – there has been little breakthrough when it comes to capacity improvement, which means flights are limited to short distances.

For most consumers, safety is still their biggest worry: the uncertainty that comes during take-off and landing, not to mention the rare or random events that could cause crashes mid-flight.

According to EHang, the company has already devised multiple security systems to improve navigation safety. Also the power source is guaranteed by the safety management system: even if one of the battery packs fails, the drone can still operate stably. In the event of an accident – like running into a bird – the drone will automatically assess the damage levels and judge whether it is possible to continue flying safely or to land at an emergency landing point, says the company.

In the short run, EHang will need to convince investors of its commercial viability. In April, the company scrapped a plan for an initial public offering in the US to raise up to $500 million. Instead, it opted for a private fundraising round, raising half the amount, reported Genghis, a portal. In 2017, EHang closed an office in the US and actually declared bankruptcy in the state of California...
University challenge

Education writer Olivia Halsall looks at ‘background enhancement’ services

To enrich your family, there is no need to buy good land: books hold a thousand measures of grain,” advises a Confucian maxim. The sage’s teachings would later become the core of imperial China’s civil service examinations. These evolved over many centuries but many historians credit the Tang Dynasty with formalising the process around the year 655. The exams were an innovation in governance: they enabled people from less well represented regions to bypass the patronage of the capital and get jobs as officials on their own merits. They became a catalyst for social mobility and established the value (and potential political power) of a good education.

The imperial civil service exams were abolished in 1905, but a better education remained a major source of social mobility and family prestige. Fast forward to 2019 and there’s a related phenomenon: a preference among affluent Chinese families to send their offspring to some of the world’s most prestigious overseas universities.

Cambridge, for example, welcomed 458 undergraduates and 830 postgraduate students from China during the course of the 2018-19 academic year. Earlier this year it even began accepting results from the gaokao, China’s equivalent of British A-levels, as part of its undergraduate admissions.

A consulting industry has blossomed to help this rising tide of Chinese students find places.

Services include: tuition for the International English Language Testing System; pairings of prospective candidates with mentors already at the targeted institutions; help with writing personal statements; and offers of internships that strengthen the students’ applications.
For a fee these companies hand-craft golden admission profiles for the wannabe students. Locally the services are described as ‘background enhancement’. One Chinese student I spoke to offered to shed light on the need for these services. Lucy, a Beijing-born NYU undergraduate and Imperial College postgraduate student, said: “University application services are a very normal practice in China. They offer a total package, meaning the consultants help you with everything – from filling in application forms to creating stories for your personal statement. Most students using this service simply don’t know where to start: their parents probably don’t understand English and their high schools or undergraduate universities in China don’t know what they need to do either. Companies take advantage of the market gap and provide these services. Generally, the fees are high as they know how desperate parents are to have their children admitted to this kind of institution – the whole family benefits from social mobility, not just the student in question”.

Chinese students abroad routinely admit to having used such services as “everyone else does it” and “they explain step-by-step how to perfect your application to give you the best shot at successful admission” I was told.

Payments vary from Rmb30,000 to Rmb300,000 ($42,228), based on the success rate of the agency and the full suite of services on offer. Companies select the university and study programme the candidate could realistically get into, buffing up student credentials by sending them on summer courses at other universities, and using mentors, tutors and professors to perfect their applications.

ViaX, one of the education firms, even matches prospective students with world-class academics to enhance their writing and research skills. It claims that “students will produce a research paper that will be submitted for presentation at an academic conference or for publication in an academic journal”.

Of course, there is a strong advisory component to what the agencies offer. Ye Jingyi, who previously worked for Birmingham-based GetSet Education in the UK as part of its placements team, told WiC: “Many Chinese students are unrealistic and would come to us with unreachable targets for their postgraduate options. GetSet Education would convince them only to consider the courses that match their strengths and abilities. Each year between 80-100 students would come to us around 8-10 months before the September entry.”

Another strand of application ‘services’ for Chinese postgraduates focuses more on mentors. Palm Drive matches prospective students with people already attending some of the world’s elite institutions. Claiming to have secured 8,000 postgraduate offers since its establishment, Palm Drive says it has an 82% acceptance rate at some of the world’s top 30 schools. Previous clients have reported in online chat rooms how supportive their mentors were throughout the process. One student applying to US universities said: “When I first started applying, I suffered emotional defeat. During the application process, my mentor served as an emotional life tutor, listening to me, comforting me and enriching my application process.”

Another mentoring scheme, Dear Mentor, offers personalised advice from a pool of more than 1,000 tutors from 300 elite institutions, all of whom have secured prestigious offers in the past themselves.

Among this group is a postgraduate student in finance at a top UK university, who charges Rmb1,050 for a 60-minute mock interview, Rmb840 for a 60-minute application consultation and Rmb2,310 for two 60-minute reviews of applicant CVs – all conducted via Skype.

Derek Wei worked for different Chinese education consultancies for five years, predominantly as a crafter of personal statements and essay writer. He recalls having an epiphany when he consulted for a Chinese consultants say they can help clients get into elite universities
talented high school girl whose parents were both senior executives at foreign tech firms. He wasn’t asked to produce the essay for her but tasked with proofreading and giving feedback on what she wrote.

“Her essay had the power of authenticity – and it made those essays written by me and my peers look stupid by comparison, nothing but clumsy imitations trying to sound like a teenager. No wonder my manager said that application officers can tell an authentic essay from a manufactured one easily. So I encouraged her to write more (which she enjoyed) and picked the most suitable ones for individual institutions. What I offered was mainly encouragement and some polishing on the wording. In the end she was admitted by her target college in the US,” Wei said.

“That made me doubt the value we sometimes add to the students’ application,” he admitted. “Of course, to those who just want to find a place to study abroad with the minimum effort, finding an application agent is the perfect choice. I understand how overwhelming the website information is, if you try to figure out how to apply for a programme abroad for the first time. And most Chinese students are already occupied with their schoolwork and background-enhancing internships and projects, so they don’t want to spend that much time studying application strategies. But for the more capable and discerning applicants, I think the best way to help them is not helping them to do everything.”

Of course, some of the advisory firms that have developed a specialisation in applications to US higher education may be reviewing their business models.

Headlines about Chinese students being denied visas to attend American colleges – and even being prevented from re-entering the United States midway through their courses – have been much discussed this year, prompting a lot of parents to encourage their kids to apply to universities in the UK and other countries (see WiC459).

Just last week nine Chinese students at Arizona State University were denied entry to the US at Los Angeles airport and sent back to China (see WiC466).

Gabbitas Education has positioned itself for this kind of changing preference among anxious parents. Its China operations manager Jack Cui told WiC: “Many of the Chinese children we work with are currently attending boarding schools in the UK and aiming for places at the most prestigious universities such as Oxbridge. Most Chinese students who are already studying at UK boarding schools are from wealthy families. They strongly believe that if their child can attend a prestigious university, it could be a milestone for the family name and that it’s an honour for all in the family.”

Of course, there are also parents who have more modest ambitions – and simply see sending their offspring abroad to study as a success in its own right.

One consultant told WiC that away from the prestige end of the advisory process there are instances in which some agencies have come to arrangements with lesser-ranked universities in the UK – often the newest colleges that are under more commercial pressure to fill places and keener to attract higher fee-paying Chinese.

“In these cases the company works like an admissions contractor that helps the university pick qualified applicants from its Chinese clients. The students that use these channels are typically those who treat overseas education casually or just want to experience life abroad, without much academic ambition,” the consultant explained.
Can an actor single-handedly save a film – in China the answer is yes

Star power doesn’t always deliver, as the performance of sci-fi film *Shanghai Fortress* demonstrated (see WiC463). Despite the presence of Lu Han, who has a huge following among millennials, the blockbuster concluded with a disastrous Rmb121 million ($17 million) in ticket sales. But just a few weeks later the power of celebrity has been crucial to another film’s success.

That was the message with *Jade Dynasty*, the box office winner by a huge margin over the three-day Mid-Autumn Festival holiday. The fantasy film, which is based on a novel of the same name by Xiao Ding, features Xiao Zhan in the lead role, depicting his struggle to change his destiny, as well as the relationships he develops with two women along the way (starlet Li Qin and Meng Meiqi, a member of the popular band Rocket Girls). The movie made Rmb270 million during its opening three days, accounting for nearly 34% of ticket sales during the holiday period. “This Mid-Autumn Festival we have Xiao Zhan to thank. If it weren’t for him, it would have gone down in history as one of the slowest holidays at the box office. Thankfully, though, the ‘high traffic star’ has now set the record for the biggest Mid-Autumn Festival weekend in the last five years,” enthused Entertainment Unicorn, a blog.

Xiao, 28, became a breakout success this summer thanks to the online TV series *The Untamed*. The historical drama, which also stars pop idol Wang Yibo, has accumulated over 200 million views on Tencent Video since its release in early July, rendering it the most viewed show so far this year. Xiao has consistently been the most talked-about topic on Sina Weibo over the same period, transforming him from a little-known member of a boy band to the biggest name in Chinese show-biz. He now endorses everything from Xiaolu Tea (see page 9) to Olay.

On crowd-financing platforms, his fans have even been raising funds to snap up pre-sale tickets and drum up buzz for his film. According to Entertainment Unicorn, his devoted supporters raised as much as Rmb4 million to purchase cinema tickets in bulk across the country. “*Jade Dynasty* is very important to Xiao Zhan. It is the first time he has been the lead in a film. Success or failure all depends on us!” one fan urged others.

Despite the strong takings, word-of-mouth marketing for *Jade Dynasty* hasn’t always been kind. On Douban, it scored just 5.3 out of 10, with many complaining that Xiao and his co-star Meng had “destroyed the film with their terrible acting”. Other critics scoffed at a plot full of holes and unrealistic dialogue. “The studios clearly didn’t respect their audience by choosing a group of actors who can’t act. It’s like they are using the film to launder money,” one netizen fumed. “Everything from the casting to the screenplay is rotten. As a fan of the book, I am very offended. Can I give a negative score on Douban?” queried another.

So what’s the explanation for how *Jade Dynasty* could still enjoy such strong box office numbers? Probably Xiao’s phenomenal popularity. “*Jade Dynasty* shows that the power of
‘high traffic stars’ is definitely alive and well. In fact, those who claimed that ‘traffic has died’ are now biting their tongues,” observed Entertainment Unicorn.

Another release over the same period has struggled to generate the same momentum. The Last Wish, backed by the embattled Huayi Brothers, is a remake of the 2016 South Korean hit The Last Ride – a comedy about a young man who wants to lose his virginity before he dies of a terminal illness. Originally scheduled for release in July, it ran into trouble when censors took issue with its original title in Mandarin. The producers wanted A Great Wish but, according to Variety, censors had a problem with the adjective “great” (伟大), which they felt should be reserved for descriptions of China’s leaders and important matters of state.

The Chinese title was switched to A Tiny Little Wish (although it maintained the name The Last Wish in English) but the change and a marathon marketing campaign did little to boost audience numbers. On Douban, it scored another dicey rating of 5.2 out of 10, with audiences deciding that the plot was too choppy (probably the result of censorship of some of the racier scenes) and that it had failed to do the Korean original justice.

“A Tiny Little Wish probably won’t deliver the big box office Huayi Brothers is hoping for,” another of the critics concluded (see WiC462 for more on the studio’s financial problems).

Cook in crisis
An online cooking star is floored by fatal accident

She makes jianbing (Chinese-style pancakes) on a makeshift grill modified from a torn-apartment computer. In other videos, she has cooked beef using a clothing iron and even prepared a sukiyaki meal on an electric heater.

China’s queen of short video, Ms Yeah, whose real name is Zhou Xiaohui, has made her name on the internet by using everyday items to make gourmet meals in less than 10 minutes, usually in an office environment. But last week she was in the news for much more tragic reasons after a girl died trying to mimic one of her tutorials.

Two girls – Zhe Zhe, 14 and Xiao Yu, 13 – were believed to have been following a video Ms Yeah posted in 2017 about making popcorn with a soda can. In the original video, she constructs a contraption involving an empty soda can put on top of a tripod stand. She puts the popcorn kernels inside the can and lights a flame on an alcohol burner beneath, waiting for the corn to pop.

The girls did something similar, putting the popcorn into an empty aluminium can and putting alcohol into another can below it. However, the apparatus exploded suddenly. Xiao Yu suffered minor injuries but Zhe Zhe was burned across most of her body. She died last week.

As news of the accident started to spread, angrier netizens claimed Ms Yeah was responsible and some even sent her death threats.

After a period of silence, she published a lengthy response on her official weibo, writing that these had been the darkest days of her life and that she promised to take responsibility for Xiao Yu’s treatment and pay compensation. But she also highlighted that the two girls hadn’t followed exactly the same process demonstrated in her video. “If I said Zhe Zhe’s accident had nothing to do with Ms Yeah, people would say I am shirking responsibility. But if I don’t clarify the situation, my heart is not so big that I can bear all the blame and accusations. After all, I’m being accused of murder!” she pleaded.

It wasn’t the first time that Ms Yeah has been criticised for her cooking techniques. The Global Times pointed out that a fire station in Sichuan blasted one of her tutorials on making hotpot in a water dispenser as a fire hazard and Ms Yeah has admitted receiving complaints from other fire departments about some of her other unconventional cooking methods too.

As one of the most high-profile figures in the short video sector (WiC first discussed the phenomenon back in issue 383), Ms Yeah will now have to rethink her approach, assuming she survives the reputational crisis.

In addition to an investigation from government authorities – which have stopped her from posting new videos every Friday – many of the firms that promoted their brands in her videos have already suspended their advertising.

Critics say that her case is a cautionary tale on how ‘influencers’ and video streaming firms will have to be more vigilant in content production in future.

“A lot of influencers act as their own screenwriters, directors, editors and managers. But risk management is another responsibility they need to consider. And that is something that requires experience and training from the MCNs [multi-channel networks that run video channels],” an insider explained to Jieman.

That’s a lesson that Ms Yeah is learning too, especially when so much of the audience is young and impressionable. “The internet is not only for adults. A lot of young children have become big consumers of information... I wasn’t being careful... Sorry, I was wrong; I’m sorry, I have disappointed so many people,” she acknowledged.
Thirty years ago owning a pet dog or cat was a rarity in China. A ban on pet pooches was only relaxed in 1993, although there are still restrictions on owning dogs more than 35 centimetres tall at the shoulder. Beijing is also in the middle of a crackdown on unregistered dog ownership ahead of the 70th anniversary of the Communist Party coming to power next month. But what’s also clear is that pets are playing more important roles in people’s lives.

Take the example of pet cloning, which has been in the news recently after a Chinese company called Sinogene produced the country’s first cloned cat – a British Shorthair called Garlic.

Garlic#2 was born on August 19 after the original animal died at an early age, leaving its owner – a 22 year-old businessman named Huang Yu – heartbroken. Huang had buried Garlic#1 in a local park but after reading that Sinogene was cloning dogs he dug the cat up and put it in his fridge while he made contact with the company.

Garlic#2 was created from skin cells from Garlic#1, which were injected into eggs harvested from another cat. Four further cats were used as surrogates for the resulting embryos.

The whole process cost Rmb250,000 and Huang will take possession of Garlic#2 when the kitten is weaned in a few weeks.

Procedures like these are illegal in most countries because of concerns about how they might impact gene pools but Sinogene says it has already cloned more than 40 dogs since introducing its commercial service in 2018.

Another is due to be born in a couple of weeks – the clone of a collie named Xiaodi. The cost is Rmb380,000 ($53,516) – higher than for Garlic because harvesting eggs from dogs is more difficult, the company has explained.

Urban Chinese now own at least 99 million pet cats and dogs (although some estimates put the full figure at closer to 150 million), which has created a huge industry for pet products. However, not everyone is an animal lover and some cities have rolled back some of the newer freedoms allowed to dog owners.

Hangzhou, for example, has reinstated an old rule stipulating that dogs can only be walked between 7pm and 7am. Local urban management officials (never popular; see WiC203) were also videoed drowning a small dog found wandering freely near its owner’s home.

Qingdao and Shanghai have also moved to enforce rules that limit each family to a single animal.

Back to the cloning, and some netizens have questioned the morality of spending upwards of Rmb250,000 on recreating a pet – noting too that, in Garlic’s case, the replica hasn’t matched the original exactly.

Yet there is also some sympathy for owners who feel bereft when their pets die, prompting the decision to try for a clone.

“The intimate connection between pets and people is a result of modern life: more empty-nesters; middle-age exposing a hollow inside; and young people increasingly remaining single. The companionship of pets gives them the opportunity to step out of the shadow of a lonely life,” wrote China Youth Daily.

In the meantime the media is reporting that Sinogene is trying to clone a horse and that it has plans to clone endangered species, such as pandas and the South China tiger.
Chinese triplet brothers Zhao Lingxiao, Linghan and Lingyun marry on the same day – a decade after they aced China’s college entrance exam.

A winning strategy?

“China thinks I’m going to win so easily, and they’re concerned because I told them, if it’s after the election, it’s going to be far worse than what it is right now”

President Trump tells journalists this week that his re-election makes a trade deal with China likely before next November. Trump promised “the greatest deal ever made” and said that China was already “starting to buy our farm products, big league”.

In Numbers

$40 billion
The value of overseas assets that Chinese companies have agreed to sell so far this year, compared to acquisitions worth $35 billion in the same period last year, the Financial Times reports. Divestments in the US jumped over three times to more than $26 billion and China has been a net seller of overseas assets this year says the FT.

4.4%
The increase in China’s industrial output in August on the year, the slowest in more than 17 years, according to the National Bureau of Statistics. Retail sales growth dipped to 7.5% in the same month, while increases in new home prices in 70 major cities also slowed to 8.8% from July’s 9.7%.

8,090
The number of new aircraft that Chinese carriers will need through 2038, according to Boeing. The figure translates to about $1.3 trillion in sales at current list prices, and the value of associated services such as fleet maintenance could reach another $1.6 trillion. The US plane maker believes that one-in-five airline passengers will be Chinese within a decade.

Rmb1,148.9
Kweichow Moutai’s stock price at the close on September 18, a record high. Analysts expect a further lift from sales around National Day next month.

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