Suning’s latest ambition

Home appliances giant reveals that it hopes to get China’s first licence to operate a privately-owned bank
Established in 1906 in Shanghai, Sin Chun was China’s first privately-owned banking institution.

It was opened at a time when foreign banks exercised total control over imperial China’s international remittances and foreign trade. They also dominated loans to qianzhuang – the smaller money brokers that dealt in China’s many different currency denominations.

Sin Chun targeted the unbanked. Small businesses and any individual with “one silver dollar coin or more” were welcomed. Business grew quickly: the bank’s deposit base expanded to more than seven million silver dollars in a couple of years. With the blessing of the Qing government, Sin Chun was even allowed to issue its own banknotes carrying the portrait of Zaizhen, a prince who advocated breaking the monopoly of the foreign lenders.

But Sin Chun paid the price for being too revolutionary. Some of its key shareholders were republicans said to have helped to fund the overthrow of the Qing Dynasty. Ironically, the demise of imperial China also doomed Sin Chun. Carrying an imperial imprint, Sin Chun’s bank notes lost their credibility after Emperor Puyi abdicated in 1912. Depositors also fled to more established rivals. Even members of the royal family were said to have abandoned Sin Chun, transferring at least a million silver taels to HSBC’s former Shanghai unit.

Sin Chun eventually collapsed in 1913.

Now, a century on, China looks set to repeat the Sin Chun experiment. Last month, the State Council unveiled the latest round of plans encouraging more privately-owned banks to emerge. The goal: to support cash-strapped small and medium-sized enterprises (SMEs). And coincidentally, just as the original qianzhuang were off-shoots of shops, the first firm to announce its own plans to launch a bank is Suning, the home appliance retailer.

But how to define a private bank? China’s banks were nationalised in 1956. Since then the most significant move to create a ‘new’ bank was
In the future, 2013 will be remembered as the year of the renminbi.

In the Chinese calendar, 2013 is the year of the snake. For businesses around the world it is set to be the year of the renminbi.

If you’re already doing business with China, or considering it in the future, there could be real advantages in being renminbi ready. A recent HSBC poll of Chinese companies estimated that 33% of China’s international trade will be RMB denominated by 2015.*

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*Base: 692 HSBC China corporate customers; RMB users and non-users; August 2012. Issued by HSBC Holdings plc. on behalf of the HSBC Group members which are regulated in the jurisdictions where permitted.
the 1996 founding of Minsheng. Given that it was essentially founded and funded by private-sector entrepreneurs, Minsheng was considered by many as a new type of bank in a system still dominated by state ownership. But although Minsheng was the first lender in which the state wasn’t the biggest stakeholder, state firms still owned a chunk of its equity. And while most of its 59 founding shareholders were private capitalists, the government retained the final say on who would get Minsheng’s top jobs.

Likewise, when it was founded in 2004, the China Zheshang Bank was 85%-owned by non-government entities, the highest share of any Chinese bank. But the state-run entities who owned the remainder retained the right to appoint all of Zheshang’s senior management.

According to Minsheng’s late chairman Jing Shuping, a private bank should be defined as one “without higher authorities meddling with daily operations”. In an interview with CCTV in 2001 Jing added: “The shareholders’ meeting must be the highest organ of power.”

Using this strict definition – zero government ownership – means there isn’t a single private bank in China, reckons Yang Jihuang, author of *Non-Governmental Banking: China’s Alternative Financial Modernisation*.

**Why are private banks now suddenly welcome?**

Yang’s calculation, of course, doesn’t factor in more than 6,000 microcredit firms. These have flourished over the past decade by lending to SMEs deprived of bank loans from state lenders.

As *WiC* has reported extensively, this tangled network of underground credit has resulted in frequent crises, when chains of local funding implode due to borrower defaults. For selected examples see

**Suning’s boss: Zhang Jindong**

*WiC*124 for our report on Wenzhou’s financial difficulties; *WiC*160 for why 600 Zhejiang businesses had to petition for financial aid; and most recently *WiC*204 for our coverage of Shenmu’s cash crunch.

According to Joe Zhang, who has spent time running a microcredit firm (and recently authored *Inside China’s Shadow Banking: The Next Subprime Crisis*) the rapid growth of this kind of lender is “a result of financial repression, while it meets genuine and legitimate needs and wants”.

By giving the green light to private banks, regulators are coming to terms with this reality – that banks need to do more to attract customers back from the shadows of underground banking. Just like the plans to legalise Wenzhou’s underground lenders last year (see *WiC*145), the suggestion is that new rules which allow private banks to develop will help to encourage this.

**No more talk, finally some action?**

Criticism of the large state banks has been evident for some time. One of the most vocal attacks came from Wen Jiabao, at the time Premier, who said that state-run lenders were making too much profit, too easily.

He called for private capital to break up their monopoly position.

Recommendations that banking should be opened up to more competition have been a recurring theme. For example, Yang calculates that there have been more than 200 academic papers and 10,000 media reports on the topic since 1999. But the 10-point directive unveiled by the State Council early last month was the first time that the cabinet had actually mentioned the term “private bank” in black-and-white, the Beijing News noted.

“There will be one or two truly private banks born within this year,” the International Finance News then predicted. The paper, which is run by the People’s Daily, reckons that the approval of a private bank licence would be the most symbolic gesture yet of any intent to crack the state lenders’ monopoly.

Such a reform also has the backing of many local officials. The Shanghai municipal government was quick to follow the State Council, issuing its own 42-point guideline detailing how the city is ready to embrace private banks. The Shanghai Daily said the planned free trade zone (see *WiC*202) would be the ideal testing ground.

Officials at Shenzhen’s Qianhai special economic zone also fancy their chances of hosting the country’s first private bank too. Plus Shandong province, now governed by former securities regulator Guo Shuqing, has outlined financial reforms specifically linked to introducing private banks. That leads the Hong Kong Economic Times to believe that investors could see the first batch of private bank approvals timed to coincide with the third plenary session of the Communist Party’s Central Committee. Xinhua has said that this key meeting will be held in November.
So who wants to become bankers?
Suning’s name is prominent, albeit because of what initially seems to have been an erroneous media report.

In the latest list of approved trademarks published last week, reporters found the name “Sunan Bank Co. Ltd” had been registered. That soon led to rumours that Suning was applying for a banking licence. The share price of the company – which has been trying to reinvent itself as an e-commerce giant – climbed more than 8% in Shenzhen.

Suning subsequently clarified that it is planning for a “Suning Bank” but that the initiative is not related to the “Sunan Bank” trademark. CBN then reported that the trademark was registered by the Jiangsu-based retailer Hongdou Group, which is yet to confirm whether it too is planning a banking off-shoot.

In fact, Entrepreneurs’ Daily reports that at least eight private sector entities plan to venture into banking. It turns out that many of the candidates are retailers. Pre-existing customer bases and recognisable brands make chains like Suning excellent candidates to make the move. There are examples elsewhere that suggest it can work. For example, UK supermarket giant Tesco has been running its own Tesco Bank since 1997.

And don’t forget Alibaba...
State-run retail conglomerate China Resources already has its own banking unit in Zuhai, while we have reported before that oil major CNPC has opened Kunlun Bank. But many see the biggest threat to the traditional banking sector as coming from China’s biggest e-commerce group, Alibaba. Regular WIC readers will be familiar with the ambitions of Alibaba’s founder, Jack Ma, in this regard. He threw down the gauntlet as early as 2004, when Alibaba developed online payment system Alipay to help consumers buy its products via the internet. Alibaba also started a micro-finance service called Ali-Loan, partnering with smaller banks to provide loans to small businesses (see WiC13).

Regulators have generally looked positively at Ma’s innovations – at least, on recent evidence. Last month, Alibaba announced that it has partnered with a local brokerage to sell asset-backed securities packaged from Ali-Loan lending (which...
Talking Point

W eek in China
30 August 2013

topped Rmb100 billion over the past three years, see WiC202). The plan won approval from China’s banking watchdog, which typically bans microcredit firms from securitising their loan books.

That move will boost Alibaba’s financial business, freeing up liquidity for Ali-Loan to grow its lending portfolio. Microcredit veteran Joe Zhang even likens the plan’s significance to Margaret Thatcher’s Big Bang in the late 1980s, in which she deregulated the British banking system. He describes Alibaba Finance as “China’s future”.

Ma will certainly pose a major threat to the current banks online, thanks to the scale of his internet shopping business and the data that helps him assess borrower creditworthiness. But in terms of bricks-and-mortar retail, the banks may see more of a challenge to their deposit base from the likes of Suning, which has a retail presence in 300 cities.

Last year Suning changed its name to Suning Commerce from Suning Appliance, hinting at the widening of its commercial scope. The rebranding was part of a broader effort to reinvent the group. Suning now has almost 1,400 shops and generated close to Rmb100 billion ($16.3 billion) in revenue last year. But its goal is to grow that to Rmb300 billion by 2020, primarily by investing heavily in its online shopping platform.

Suning’s existing relationships with its suppliers and clients, together with a workforce of more than a 100,000 staff, already provide a solid base for a banking operation, says the 21CN Business Herald. Suning’s merchandising connections with suppliers also mean that it should have a handle on the credit profiles of thousands of potential corporate clients. This could give Suning a further edge in lending to the segments of the economy that the government now most wants to support: the private sector. “Suning’s bloodline as a pure private enterprise also means it has a bigger chance of obtaining a private bank licence,” Sina Technology said.

Suning seems to think so too. According to the company, there are already 500 employees working in its ‘finance’ division and the planning for obtaining a private bank licence has been underway for five years.

What’s next for Chinese banking?
If private banks are allowed, the next logical step would be to allow them to set their own interest rates, to lure savings away from the big four lenders. That would require a fuller liberalising of deposit rates but before that can occur, most analysts believe a deposit insurance scheme is required to safeguard savers. The People’s Bank of China said in June that it is ready to set up just such a scheme and the South China Morning Post predicts it could be in place later this year.

This will reduce concerns that depositor money could disappear from poorly-run newcomers, although the regulator can also be expected to vet applicants for new bank licences exhaustively. Other controls may also be introduced: the Guangming Daily believes that the regulator should prevent any single entity from owning controlling stakes in a private bank, in the belief that a fragmented shareholding structure will ensure stronger financial support and better corporate governance.

State lenders still account for more than 90% of China’s financial assets. Such dominance won’t disappear overnight. But the introduction of greater competition will also force the state lenders to provide a better standard of financial services, said China Entrepreneur.

“The good old days of state banks’ monopoly profits are numbered,” the magazine prophesised.

In the bag

Xi Jinping’s crackdown on waste and corruption is said to have led to a slowdown in luxury goods sales, a move that saw Gucci even halt its store expansion programme in China recently (see WiC183). But it would seem that Furla’s boss is less concerned by the clampdown. This week Giovanna Furlanetto told the Financial Times that she is planning to open 100 boutiques across Greater China in the next five years. The luxury goods firm told the newspaper that most of the shops will be in China’s first and second tier cities, and would be established as part of a joint venture with Hong Kong tycoons Victor and William Fung. Furlanetto – daughter of the handbag maker’s founder Aldo Furlanetto – expects China to be Furla’s biggest market within “four to five years”. She added that Furla’s sales in Italy rose 8% last year, thanks largely to purchases made by visitors from Asia.
The Week in 60 Seconds

Potentially arresting times

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

1. Wang Yongchun, a deputy general manager at China National Petroleum Corp (the parent company of PetroChina), is being investigated for “severe discipline violations,” said Xinhua. Meanwhile, PetroChina also confirmed that two vice-presidents at the company, as well as its chief geologist, “are currently under investigation by relevant authorities”. They become the latest senior officials in the state-owned sector to be investigated. Earlier this month, Xu Long was removed from his post as chief of China Mobile’s Guangdong branch for alleged discipline violations.

2. China Construction Bank, China’s second-largest lender, posted a 9.7% rise in net profit for the second quarter, the smallest gain in five quarters, amid a slowing economy. Quarterly profit rose to Rmb60.1 billion ($9.81 billion) from Rmb54.8 billion in the same period last year. Agricultural Bank of China, meanwhile, reported a 15% rise in its first-half profit. The country’s third-largest bank by assets said net profit for the six months was Rmb92.4 billion, up from Rmb80.5 billion last year. Both banks warned that the banking sector faces slower profit growth.

3. China plans to land an unmanned exploratory rover on the moon by the end of 2013, said Xinhua. The launching rocket and other components for the Chang’e-3 lunar probe are already assembled and tested. Analysts believe that Beijing sees establishing a long-term presence in space as an important part of its emergence as a global power.

4. New Zealand authorities have confirmed that the contaminated whey protein concentrate made by dairy firm Fonterra doesn’t contain Clostridium botulinum and will not produce dangerous botulism toxins. The botulism scare that broke out earlier this month caused an international incident as it affected eight Fonterra customers with products including big brand infant formula and sports drinks.

5. The New York Times has reported that Broad Group has halted work on its 202-storey prefab skyscraper this week (using a novel new technique it could smash construction speed records). On Tuesday, the company said it had paused work at the site while waiting for further approvals from regulators in Beijing. “It’s because of all the concern in the media and on the internet, the government is a little wary and has slowed down the process,” said Zhang Yue, chairman of Broad. China is home to 60 of the world’s 100 tallest buildings now under construction.

6. Qihoo 360 has launched a convertible bond to raise up to $600 million, the first in the US market from a Chinese company since last September. The offering was launched as Qihoo, which specialises in internet search engine and mobile security products, saw its stock price reach an all-time high of $79.26 this Tuesday, rising 167% so far this year. FinanceAsia has reported that the Hong Kong book is already three times covered due to strong interest from Asian investors.
In a noodle

Firm sees danger of over-relying on one product

If Beyonce can’t convince Americans to drink more soda, who can? That’s a question being asked by analysts after PepsiCo – which signed the pop diva to appear in its ads – sold fewer carbonated drinks in the second quarter in North America than a year ago. Its rival Coca-Cola reported something similar. In fact, per capita consumption of carbonated beverages has been slipping steadily in the US since 1998 amid concerns that sugary drinks fuel weight gain.

In China, two food producers are struggling to compete in another market that seems to have stalled. As WiC has chronicled previously, Master Kong and Uni-President have been locked in battle in the instant noodle industry. Master Kong, owned by Taiwan’s Tingyi, is still the leader in the segment, controlling over 56% of instant noodle consumption. But Uni-President has been catching up, especially after its Pickled Vegetable Beef Noodle became a runaway hit in 2011. That one product generated annual sales of Rmb4 billion ($653 million) last year, helping Uni-President grow its market share from 9.5% to 13.5% in 2012 (see WiC154).

But fast forward a year and all is not well with Uni-President. Although the Taiwanese food conglomerate’s Hong Kong listed unit announced that revenue rose 14.6% in the first half of its financial year to Rmb12.2 billion, its net losses at the instant noodle division reached Rmb60.3 million.

“There is no reason for costs to go up so fast because so far this year the price of palm oil was down and the price for flour has also stabilised. In general, cost pressure in the instant noodle industry is not great,” a company critic told China News Net.

So what happened? Analysts reckon that the losses are due to aggressive expansion of Uni-President’s instant noodle business. Even though noodles contributed more than Rmb3.8 billion in sales in the first half of the year (up 10.4% from a year ago), other costs – mostly in marketing and distribution – have grown at a faster pace.

“Compared with Master Kong, Uni-President’s distribution channel is a lot weaker. So in order to increase market share, Uni-President has been adding distribution not only to large supermarket outlets but also in the countryside, which is much more scattered and requires significantly more investment in human resources. That explains why costs for Uni-President have gone up so much,” food business researcher Zhu Danpeng told 21CN Business Herald.

Onlookers have also pointed out that it isn’t the first time that Uni-President’s instant noodle business has slipped into the red. In 2009 and 2010, the segment lost Rmb12.6 million and Rmb69 million respectively. Analysts say the breakout success of Pickled Vegetable Beef Noodle was the only reason the trend was previously reversed but Master Kong and other rivals then released products to compete against the new bestseller. In the first half of 2011, Pickled Vegetable Beef Noodle sales jump 220% from the year before. But by the second half of the year, growth had tapered off to (a still perky) 51%.

“Instant noodle is a market that requires constant innovation because consumers’ tastes are always changing. These days, between the launch of a new product to its decline is as little as three years, and that’s already very good. It’s clear that Uni-President’s Pickled Vegetable Beef Noodle has passed its peak,” says Zhu. “Uni-President is spending too much time on this one flavour when it should be developing new products in the pipeline to replace it.”

Demand for instant noodles hasn’t been growing much either, with AC Nielsen data showing sales as a whole rising only 4.5% in the first half of the year, significantly lower than last year. This suggests that the market may have reached saturation point, says CBN. But the Lex column in the Financial Times had better news for noodle bosses this week, by predicting that sales will grow faster in future. The reason? Market research suggests that Hongkongers (a natural proxy for better-off Chinese) are consuming 5kg (or 50 packs) of instant noodles annually. That’s significantly more than the 30 packs a year being warmed up by the mainland Chinese. The premise is that the gap will close once mainlanders get wealthier and more time-constrained. Uni-President will be hoping so too...
It’s official – steel is China’s least profitable industry. In the first half of the year, the average profit margin at members of the China Iron and Steel Association was a wafer thin 0.13%, reports Xinhua. The sector suffered a Rmb699 million ($113 million) loss in June alone.

No wonder steel companies are looking for opportunities outside their core business, which continues to struggle with excess capacity after years of giddy overexpansion.

Previously, steel giant Wuhan Iron and Steel has opted for pig farming (see WiC142), while Shougang has even dabbled in wine-making. Tangshan Iron and Steel Group Corporation is no different in wanting to try out a few business alternatives.

In less than three years, Tangsteel has opened more than 20 subsidiaries outside of the steel sector, including real estate, liquefied natural gas and an educational business, reports the Economic Observer.

“We must find a new way out,” Tangsteel’s Party secretary and deputy general manager Wang Xindong told the newspaper.

Tangsteel’s short-term goal is for its non-steel businesses to bring in revenues worth Rmb13 billion ($2.12 billion), with the hope that more than half of Tangsteel’s income will come from businesses outside of steel by 2015, reports the Economic Observer.

In the long-term, it wants these businesses to operate at a profit margin of at least 12%, something unimaginable in the current commercial environment for steel.

Let’s make light bulbs instead

Hence another foray into a new business area, although this time the venture is LED lighting, which Tangsteel is developing in cooperation with a Korean partner.

Samsung or LG, you might think? Not so: Tangsteel’s collaborator is a subsidiary of South Korean steel giant, Posco Group, and brings to the venture its core LED technology.

In June, the two companies signed a cooperation agreement and Tangsteel’s targets for the new venture are ambitious. Within two years, it wants to take a 5% market share in China, and within five years increase that to 30%.

In doing so, it hopes to capitalise on policy directives seeking to switch Chinese homes and offices from traditional light bulbs to more environmentally-friendly LED lights. The government’s target is 30% of homes using the newer lights by 2015, which would create demand worth Rmb500 billion (see WiC157).

But getting a large chunk of this market could also prove problematic, as LED lighting is suffering from overcapacity itself. The industry started in Shenzhen with local government support but spread across the country as other cities started to build LED hubs. This has hit profits. Last year, 25 listed LED firms reported net income down 18% on 2011, reports CBN.

One official even told Southern Metropolis Daily that the government is worried that LED could become another solar industry, which is now suffering comparison with steel as one of China’s most swollen sectors. If so, Tangsteel can expect criticism for moving from one overextended industry to another.

Of course, the diversification strategy leaves many questions unanswered, not least why Tangsteel thinks it can become competitive in many of the new business areas that it’s chosen to enter. Cost saving doesn’t seem top of the agenda either. The company says its workforce is being rearranged rather than reduced, with 22,000 of its 37,000 employees to be transferred to its new subsidiaries. According to newspaper reports, Tangsteel has even made a commitment to take staff back to their former roles should any of the new subsidiaries fail.

In the meantime, Tangsteel is hoping that diversification will reinvigorate its original business too, with the 15,000 people still focused on the steel business helping its employee productivity get more in line with internationally competitive firms.
When Lehman Brothers closed its doors in 2008 it earned a dubious accolade as the biggest corporate bankruptcy in American history. According to MarketWatch, it owed $613 billion, far exceeding the debts of the previous record-holder WorldCom, which had borrowed $41 billion.

A corporate default in China is also getting attention, although not because it rivals Lehman in scale. The shock is more about the parties involved – large state-owned enterprises, which have typically been seen as immune to the bankruptcy threat in the past, and viewed by bankers as a safe credit risk.

The case involves one of the country’s largest companies, MCC (Metallurgical Corporation of China), as well as a lesser-known but significant firm called CCT (China Chengtong). MCC is a huge player in natural resources with mines in places as far flung as Afghanistan and Papua New Guinea (see WiC41 for a profile). However, it has been drawn into a messy dispute with a unit of its SOE cousin, Citic. As we discussed in WiC163, the pair have been arguing over Citic Pacific’s claim for billions of dollars in compensation after MCC failed to deliver construction work on schedule at a huge mine in Australia’s Pilbara region.

As the dispute escalated in the second half of last year, MCC began disposing some of its businesses – such as a steelmaking subsidiary – with the aim of getting losses, as well as debts, off its books.

It was just such a deal – agreed with Sasac in late 2012 – that sparked the current problems with the banks. According to the Economic Observer, Sasac gave its approval for MCC to sell its paper-making subsidiary to CCT, offloading its equity to its fellow SOE free of charge. This may have been designed to free up financial resources for a settlement with Citic. Along with the paper firm’s equity, MCC likewise transferred Rmb12.68 billion ($2.1 billion) of debt owed to 29 local banks.

What happened next is what caused the uproar. In June, MCC Paper’s Shandong-based production facility Yinhe Paper stopped repaying its loans. The banks say CCT has told them the unit is now bankrupt, hence the debt default.

This seems to have come as a genuinely shocking event to the lenders and by late July the banks had appealed to the Beijing Banking Association to arbitrate the dispute. Several went to court to sue for their money back too.

As a representative from Beijing Rural Commercial Bank told the Economic Observer: “This behaviour is very irresponsible. The view among Chinese banks that there is no risk in lending to central enterprises [i.e. the largest SOEs controlled centrally from Beijing by Sasac] has undergone tremendous change.”

The newspaper also says that some of the banks are no longer issuing credit to Sasac-controlled SOEs, partly in protest and partly due to suspicions that some of these entities may have been given permission to default. What the bankers fear is that Sasac – the state holding company (see WiC45 for more) – is initiating a wave of debt default.
restricting within its portfolio with a strategy to force the banks to write down a large chunk of outstanding loans.

This brings us to CCT’s role in proceedings. Originally an SOE involved in logistics and warehouse management, CCT was given a fresh mandate in 2005. Sasac wanted to use it to acquire and then turn around failing state firms. Since then, CCT has taken over China National Packaging Corporation and China Record Corporation, among others.

In this particular case, CCT seems to have tried to cherry-pick the parts of MCC’s erstwhile paper business that it considers as going concerns. But it has let the Yinhe subsidiary go bust, vaporising much of MCC Paper’s overall indebtedness. As far as strategies go for returning a business to profitability, it’s fast and efficient. But the problem is that the financial pain is transferred to the banks.

One banker told Sina Finance that the default is ominous as it could mark a broader trend. “Do CCT’s actions indicate that a new round of state-owned enterprise debt-evading is about to start?” he asks. “If so, this round of reform will once again see the state-owned banks pay the bill for state-owned enterprises.”

That means that the debt debacle triggered by MCC, Sasac and CCT could have broader consequences. In the short term it has made the banks nervous about their exposures to large but loss-making SOEs, changing their assumptions about what they previously considered as gilt-edged credit risk. And the MCC Paper case is impacting all the banks, not just the smaller players. For example, three of the firm’s main creditors are Agricultural Bank of China, China Development Bank and Bank of Communications.

The worry for management at the weaker SOEs is that this could also lead to a liquidity crunch. The Financial Times cited an example of a company with very similar fears this week. State-owned chemicals firm Yunwei grew its assets 30-fold over the past decade, largely through debt. But thanks to overcapacity in its sector, Yunwei is in dire straits, having lost Rmb1.2 billion last year. It requires fresh debt just to stay in operation, but new financing is now becoming harder to secure.

An executive with Yunwei told the FT that the firm used to be able to borrow at the (very low) benchmark rate. Back then, he says, the creditworthiness of state-owned companies was universally seen as very good. Now, he implies, the banks aren’t so sure, which means that they are demanding that Yunwei pay 30% above the benchmark rate for new loans – so as to compensate for the higher default risk.

Of course, commentators have been arguing for some time that China must adopt more market-driven pricing for loans. Critics have also derided the relatively easy ride enjoyed by SOE borrowers in the past, especially compared to their private sector rivals.

But the question is also how reforms may end up damaging many of those caught up in the former status quo. Whether MCC Paper is the proverbial canary in the coal mine signalling some (very) bad news for the banks remains to be seen. But a number of analysts have already seized on the case to make some fairly dire forecasts. Using the bad loan write-offs of the 1990s as a guide, they say that up to a fifth of lending could default, equating to Rmb21 trillion or 40% of GDP, the FT reports.

Some form of debt restructuring already looks inevitable, given that the IMF has calculated that the average debt-to-equity ratios for Chinese firms stand at 110%.

But the precedent set by MCC Paper must have bankers worried. According to the Economic Observer, the CBRC (the banking regulator) is also increasingly concerned by the default, after being lobbied heavily by financiers to act on their behalf. Behind the scenes, a bureaucratic struggle may even be underway with Sasac, with each side seeking to protect its own interests as best it can.

The compromise reached – i.e. if banks accept a haircut of, say, 50% – could prove revealing for the slew of analysts now modelling just how bad China’s non-performing loan situation could get. ■

An MCC Paper Mill

We reported in WIC193 that Chinese investors adore Warren Buffett as the “God of Stocks” and his meeting with Vice Premier Wang Yang in May was greeted with much excitement, fuelling speculation that Berkshire Hathaway was sizing up another Chinese acquisition.

But the real reason for Buffett’s low-key Beijing trip was revealed this week. As we reported in WIC190, China’s antitrust watchdog is now becoming a key regulatory hurdle in international M&A. And citing unnamed sources, the Financial Times suggested this week that Buffett’s visit was to secure China’s support for his $28 billion bid for Heinz.

“Dealmaking is growing more complex, with companies needing to win approval from regulators in up to 100 countries,” the FT said. China eventually approved the deal to buy the famous US food firm at the end of May.
When Elon Musk was asked in an interview with Bloomberg TV in 2011 what he thought of his Chinese competitor BYD, he laughed. When pressed further, the billionaire investor could barely hide his disdain. “Have you seen their car?” he asked.

There are reasons why Musk might be feeling smug. His company Tesla has posted its second consecutive profitable quarter, helped by record deliveries of its Model S plug-in sedan. Tesla shares, lately reaching $167, have nearly quadrupled over the last year. At $20 billion this week, Tesla’s market capitalisation is now about 40% of GM’s.

BYD, on the other hand, continues to struggle. The company, backed by Warren Buffett, saw its own shares plunge 11.8% on Monday after it forecast lower profits in the next quarter. Its market value is hovering around $11 billion, much of that derived from sales of traditional vehicles, rather than new energy ones.

Still, this hasn’t stopped Wang Chuanfu, founder and chief executive of BYD, from being equally dismissive of his US rival.

“BYD could make a Tesla any minute if consumer demand for electric cars really ramps up,” Wang announced during the company’s annual meeting in June.

In fact, the two are now set for a showdown after Tesla revealed ambitions to grow in China too. In January, it told reporters at the Detroit Auto Show that it would open its first Chinese showroom in the spring, although the timing has since been pushed back to the end of the year. The sales office is likely to be located in Beijing’s upscale Parkview Green Mall and will be three times larger than any Tesla store in the US, says China Car Times.

The Californian automaker also started taking sales reservations in China last week, with deposits for its zero emission Model S sedan setting Chinese buyers back Rmb250,000 ($40,832). To attract buyers, Tesla plans to make the rear seat of the Model S more luxurious as many wealthy Chinese have drivers, Musk told reporters. The Model S was designed “to be the perfect driver’s car,” he advised. “But obviously, if people are being driven around, then we need to make sure the back seat is optimised.”

In an exclusive interview with China Entrepreneur, Musk played up his star power by offering a personal tour of the Tesla factory in California.
He also made sure to offer a few soundbites that will please the Chinese regulators – not least offering soothing words on its solar sector, an area where the US and EU have alleged Chinese firms have dumped their panels to gain share. “China is the world leader in solar energy production and that’s great. Sometimes the US government thinks this is a bad thing, and gives the Chinese solar panel manufacturers a hard time. But I think as long as China can produce high quality and low price solar panels, that is good. The world should also not think of this as a bad thing,” Musk suggested.

But before Tesla can start selling to the country, Musk is going to have to deal with another sticky issue. The China Daily has reported that the “Tesla Motors” trademark is already owned by Guangdong businessman Zhan Baosheng, which effectively blocks the US firm from introducing its brand to the Chinese market. Conveniently, Zhan claims to be researching electric car production himself, although he says he’s prepared to sell the “Tesla Motors” name back to Musk for $32 million.

Readers of WIC will remember that Apple faced a similar situation with the launch of its iPad in China. It ended up paying $60 million to Shenzhen’s Proview Technology, which owned the right to the iPad trademark. (Likewise Land Rover has also faced trademark issues, see WIC100).

But the larger question is whether Musk and Tesla will succeed where Wang and BYD have so far failed: in convincing enough Chinese car buyers to switch to an electric car? As WIC reported in issue 159, electric cars have been slow-sellers in China. Most buyers are put off by the higher price of the cars, as well as concerns about the convenience and cost of recharging their batteries.

The authorities in Beijing tried to jumpstart demand by offering subsidies of as much as Rmb60,000 towards the purchase of electric vehicles (some cities have added extra incentives too). But the central subsidy programme ended last year and there has been little signal that it will be renewed. That helps to explain why BYD has been focusing on the bus and taxi market for its electric vehicles, where purchases are often made by local governments rather than individuals. Even Wang admits: “For BYD, the technology for electric vehicles is not the problem, the market is the problem.”

Still, perhaps BYD can learn a few things from its US rival. One reason for some of the hype surrounding Tesla is that Musk, who has been compared to Steve Jobs as a master showman, understands that aesthetics and branding are as important to buyers as the technology itself. Tesla has worked hard to design cars that drivers actually like the look of.

The sales experience is important too. Unlike many car dealerships, Tesla showrooms are often in upscale neighbourhoods. Customers are surrounded by jumbo touchscreens that allow them to configure and then preview their future purchases digitally. “The biggest difference between Tesla and BYD, is that the former is selling a brand while the latter is selling technology,” says 21CN Business Herald.
Economy

If the Gu Kailai trial last year was the TV pilot, then the trial of her husband Bo Xilai, which ended this week, was the full, follow-up series that topped the ratings, leaving its audience hungry for more.

All the original characters were in evidence: Bo, the man who came within grasping distance of ruling China; Gu, his Lady Macbeth; and Wang Lijun, the sinister police chief from the city of Chongqing who sparked the downfall of all three by entering a US consulate and refusing to come out.

But this series had so much more to give: insights into the way that relationships work at the top of Chinese society, descriptions of the opulent lifestyle enjoyed by Bo’s wife and son, and even a peek into the steely mind of Bo himself.

There were confessions of love affairs too, including allegations of an illicit tryst between Wang and Gu.

HBO script writers couldn’t have crafted anything better, netizens joked. China was riveted.

Yet initially the trial didn’t promise much drama. Most experts predicted it would last a couple of days and follow a tried-and-tested pattern whereby Bo would admit his guilt in exchange for leniency, or perhaps immunity from prosecution for his son, who is living in the US.

No one expected a five-day trial or the court’s unprecedented decision to “tweet” the trial “live” on the popular Sina Weibo platform. In total, the authorities posted 150,000 words – most of them transcripts of what was being said.

And after perusing them all, what did we learn? Firstly, from the fact that the proceedings were posted at all, it is clear that the Chinese government wanted the trial to be perceived as open and fair. From August 22 when the trial began, to this Monday when it ended, the state media churned out commentary after commentary insisting that Bo’s case proves that China follows the rule of law.

Secondly, the Party wanted the case against Bo to be seen in very narrow terms. The actions of other leaders or any notion of systemic problems connected to one-party rule were not up for debate. This was about the actions of a bad apple in the barrel, not an assessment of whether the barrel was rotting from the inside itself.

Indeed, in the accompanying media coverage of the trial, the Party, and specifically President Xi Jinping (with his zero-tolerance anti-corruption campaign) were painted as saviours of the situation.

“Bo’s case shows the central government rules through the rule of law and a determination to eradicate corruption,” an editorial in the People’s Daily proclaimed. “An open hearing is a good opportunity to publicise our laws and to tell officials who believe themselves to be above the law because of their high position and background to give up their evil ways and insolent thoughts,” the editorial added for good measure.

So did the gamble work? Did Bo emerge looking guilty? And was the trial enough to heal some of the rifts that Bo’s ousting is said to have opened among China’s leading group?

In answer to the last question, the decision to allow the trial to run for five days – the longest of any politi-

Silence in court?

Bo breaks the mould, fighting back against his accusers

Rather reluctant to leave the stage quietly
cal leader since that of Mao’s wife in 1980 – and to open it partially to the public gave Bo a platform denied to other disgraced leaders.

It offered him the legal equivalent of an honourable death, say experts, a move which may have been supported by those still sympathetic to his case.

It also gave Bo five final days in the limelight and he took his chance. He was defiant to the last, denying anything that carried a legal charge, with resistance so unbowed that it was hard to hold off the urge to cheer him on.

Certainly many netizens felt that way. ”This is a can-do man. We need more officials like him. Shame on those that destroyed him,” wrote one on weibo. Another marvellled: ”His logic is crystal clear. He is running rings around the prosecutor.”

Others saw it differently, judging Bo’s behaviour as arrogant and indicative of a man who saw himself above the law, possibly because of his lineage as son of Bo Yibo, one of the Party’s ”Immortals”.

At times it was clear even from the transcripts that Bo was speaking to the judge and the prosecutors as if he was still a senior official. Footage on broadcaster CCTV also showed him regularly deploying his trademark smirk.

In their closing remarks the prosecutors called for Bo to be given a heavy sentence, citing his ”whimsical” behaviour during the trial and his persistent refusal to admit any guilt. Yet the question of guilt seemed to interest ordinary Chinese considerably less than the salacious details that the case threw up. It was the first time that the public learned officially about the Bo family’s $3 million villa in the south of France, for instance, an unimaginable luxury for most citizens. Likewise of son Bo Guagua’s jet-set lifestyle, said to have been funded by the billionaire Xu Ming.

Amazingly, these details were provided mostly by Bo’s wife Gu Kailai, who submitted video testimony showing herself thinner and more lucid than during her own trial, in which she was found guilty of the murder of British businessman Neil Heywood.

Gu said Bo knew about holidays paid for by Xu – the Dalian tycoon even funded Bo Guagua and a group of friends to travel to Tanzania by private jet – and he also knew about the French villa too.

Gu even cited a piece of meat from a ”rare African animal” that Bo junior brought back from his Tanzanian jaunt. Apparently, the Bo family feasted on it for a month.

But Bo dismissed her evidence as ”lies” and called her ”insane”, although he also said that he still had feelings for her.

Another shock was the arrival of Bo’s former right-hand man Wang Lijun on day three of the proceedings. Providing evidence for the abuse of power charge – Bo was also charged with bribery and embezzlement – Wang explained how he had raced to the US consulate in Chengdu in February last year because he was afraid for his life.

According to his testimony, Wang had confronted Bo with his suspicions that Gu had killed Heywood, only for Bo to remove him from office on the premise that he was mentally unstable. The prosecution then presented medical documents in Wang’s name that Bo was said to have faked in order to secure his dismissal. But Bo claimed he did so on the order of ”higher authorities” – hence not abusing power himself – but that remark was quickly scrubbed from the official record.

Of all the witnesses, it was Wang that riled Bo the most and the last day of the trial provided a possible explanation. His former police chief had been secretly in love with Gu Kailai, Bo claimed, and Gu may even have reciprocated. It was Gu’s final rejection of Wang, and not any plot against him, that was the true reason why he fled to the consulate, Bo said in dramatic flourish.

It didn’t make much sense but as a cliffhanger, it was a good one. Bo’s problem is that this was almost the final episode. All that’s left now is the verdict, expected in a few weeks.
Island getaway

Regulator investigating Shanghai insurance broker, as boss flees to Fiji

The South Pacific island of Fiji has seen an influx of Chinese tourists in recent years – from just over 4,000 in 2009 to nearly 27,000 last year, reports the Fiji Sun. But the tropical paradise wasn’t a holiday destination for Chen Yi, the young boss of Shanghai’s largest insurance broker. Instead it was her bolt-hole, following allegations that she had absconded with Rmb500 million ($81.8 million) of company money, reports the China Daily.

But her escape from the law was short-lived, reports the newspaper, after she was nabbed by Chinese police working with their counterparts in Fiji.

The company that Chen ran, Shanghai Fanxin Insurance Agency, is at the centre of an investigation by the China Insurance Regulatory Commission (CIRC) after accusations that it was selling “unauthorised” wealth management products with a guaranteed yield of between 7% and 8%, says the South China Morning Post.

Shanghai Fanxin is also accused of running a Ponzi scheme, news of which soon created alarm among customers of the firm’s products.

One of Fanxin’s brokers, sur-named Wu, told the Global Times that he didn’t know what would happen to the friends, family and customers that had bought the company’s products.

“Just as the customers of the insurance agency, I am also a victim anxiously waiting a solution,” Wu told the reporter. He claims his family’s total investment is more than Rmb300,000.

Model approach to sales

It is a sharp turnaround in fortune for the agency, which once boasted a business model that was celebrated in local insurance circles. It was described by a source to the Economic Observer as “mainly packaging insurance policies into financial products and making commitments to customers on the returns, so the scale grew fast”.

Fanxin certainly enjoyed rapid growth: in 2012 its premium revenue was Rmb480 million, compared to just Rmb150 million the prior year, reports Century Weekly.

The magazine explains that the company would ask for very high commissions on new contracts that it brought in – as much as 150% of the first premium payment. But what is less clear after Chen’s flight to Fiji is how much client money actually found its way into legitimate insurance products.

The company worked with a number of insurance companies, including AEGON-CNOOC and Sun Life Everbright Life, reports Economic Observer. They were attracted by Fanxin’s local distribution network, while Chen was also lauded for her sales skills. She developed detailed instructions on the image that sales staff should present: luxury clothes were standard and even mid-ranking employees were expected to drive a high-end car like a BMW.

“The Fanxin saleswomen may have no experience in the insurance sector, but most of them look like models,” a source told International Finance News.

Chen Yi herself attracted plenty of attention too, with another industry insider telling the Economic Observer that she looked “pretty and frail” which meant that “all the men want to give her a helping hand.”

Fanxin was set up in 2007 but it really got going in 2009 when Chen joined from Pacific Antai Life Insurance where she had been a star employee. Chen brought a number of former colleagues with her. Sales soon started to rocket.

Now, of course, that success is being investigated. While it is too early to say whether Fanxin’s case is unusual, the investigation may reveal similar practices at other insurance brokerages. If so, this could hit smaller insurers hardest as they tend to rely more on agencies like Fanxin to sell their products.

“For the big insurers, their risk control is much better,” Olive Xia, an analyst at Pacific Core-Yamaichi International told the China Economic Review.
Propagandists seeking to promote the global appeal of traditional Chinese culture were disappointed in May, when the martial art wushu failed to be selected for inclusion in the 2020 Olympics.

Eight sports were vying for one slot made available by the International Olympic Committee. Wushu eventually lost out, with baseball, squash and wrestling making it onto the shortlist. It was the fourth failed attempt to showcase the martial art as an official Olympic sport.

Reflecting on the setback, Hong Kong’s Ta Kung Pao, a newspaper, blamed kung-fu movies. “People are being misled that wushu is the same as kung-fu where all the actions are faked special effects,” it complained.

But one man who has become more interested in Chinese combat is Mike Tyson, the former heavyweight boxing champion. He opened a weibo account last week and in his second posting – having already gained 650,000 followers – asked “Who is the best fighter in China?”

The boxing legend isn’t in the best of shape, admitting to the international media last week that he is battling addiction. But that didn’t prevent more than 70,000 replies from his Chinese followers, many suggesting that Tyson should pick a fight with “China’s best fighters” – the chengguan.

“They will be the ones biting your ear,” one weibo user warned. “You fight in the ring legally. Chengguan fight others in the street legally in China,” another wrote.

“Who is that guy? Is he good? I’ve never heard of him before,” a mystified Tyson wrote back, misunderstanding the reference.

The former champ would have a better idea had he read a recent issue of WiC in which we explained that chengguan are quasi-governmental law enforcers employed by cities to administer local neighbourhoods. Thanks to their notoriously thuggish ways they are also universally hated (for the latest example, read WiC203).

Boxing fans who’d like to know how kung-fu fares against other combat techniques are advised to watch Henan Satellite Television’s Wulinfeng, which translates as “martial arts trends” in Chinese.

Started in 2004, the programme is one of the oldest reality TV formats still running in China. In the beginning Wulinfeng focused on Chinese martial arts. But then fighters from elsewhere were brought in to boost the flagging viewership. The most controversial bout featured Yi Long, known as ‘No.1 Kung-fu Monk of Shaolin’, against US police officer Adrien Grotte in 2010. Entering the ring with an unbeaten record, Yi Long was knocked out by Grotte with a single punch in the second round.

The long arm of the law, indeed. The video of the fight soon went viral, forcing the Shaolin Temple to publish a statement clarifying that Yi Long wasn’t a kung-fu monk from Shaolin and most certainly couldn’t be classed as their number one either. (Last week we mentioned the Shaolin authorities also denying that a monk-turned-football-coach was one of their men, too.)

Nevertheless, Wulinfeng maintains a reasonable global appeal, especially among hardcore fans of kickboxing and ultimate fighting, with its popularity underlined by the vast amount of clips available on YouTube.

In recent years, Henan Satellite TV has also been cooperating with foreign associations to organise mixed martial art tournaments. The latest offering this month pitted Chinese kung-fu against Muay Thai, in which Yi Long (yes, him again) salvaged some national pride by knocking out a Thai boxing champion.

Henan Satellite TV said Wulinfeng is helping to promote Chinese kung-fu on the international stage. Going global, reckons Yi Long, also helps...
Chinese kung-fu masters become better fighters. “My way of fighting has changed. Using traditional Chinese kung-fu isn’t enough, we must combine techniques of international kickboxing,” the monk (but no longer the No.1 Kung-fu Monk of Shaolin) told the Global Times.

**Monster takings**

*Flopped in US, big in China*

Chinese moviegoers seem to like a good monster movie. Last year, Battleship (a rather forgettable film in which the American navy takes on aliens) grossed $65.4 million in the United States but went on to make $50.1 million in China. Similarly, the latest ‘monster’ blockbuster Pacific Rim took only $98.7 million in North America, but found a more interested audience in China, where it sold more than $109 million of tickets in just three weeks.

The film, which pits humanity against creatures called the Kaiju which pop up from the bottom of the Pacific Ocean, even surpassed the box office take for Tiny Times 2, a speedily-released sequel to author-director Guo Jingming’s Tiny Times original (see WiC202).

That’s good news for Hollywood, which has had a far-from-vintage year in China. In fact, Pacific Rim is only the second Hollywood import to hit the $100 million mark in China in 2013. The first was Disney’s Iron Man 3, which has made about $120 million since it opened in June.

Still, few expected Pacific Rim to be quite so successful. For a start, there are no big-name Hollywood stars in the film. Even though the story is partly set in Hong Kong, there are no notable Chinese characters in the film (unless we’re counting the unlikely triplets who pilot a giant robot named the Crimson Typhoon – although even these three have barely any dialogue and perish within the first hour).

In fact, the only ‘Asian’ face is actress Kikuchi Rinko but that’s hardly going to win many points with local audiences because she is Japanese.

So why has Pacific Rim been so popular in China? Timing certainly helps. The alternatives currently on offer include Tiny Times 2 and Fan Bingbing’s rom-com One Night Surprise, both of which are aimed at a younger, female demographic. By contrast, the special effects and storyline of Pacific Rim may be a preferred option for boyfriends and husbands.

China’s taste for monster films might also be explained by another factor: the genre is practically non-existent in domestic movies, says Robert Cain, author of China Film Biz. While audiences thrill to the deadly threat of oversized lizards and gigantic glowworms, the censors are generally much less impressed. “It’s a quirk of the film administration’s policies that monsters can invade China – at least on the big screen – from overseas, but they’re generally prohibited from breeding, hatching or emerging from slimy lagoons onshore in the Middle Kingdom,” Cain muses.

Members of the Chinese military have also recently been advised to steer clear of Hollywood fare. In a commentary in the People’s Liberation Army Daily, Zhang Jieli warned troops not to be taken in by American deceit. “Soldiers should sharpen their eyes and enforce a ‘firewall’ to avoid ideological erosion when watching American movies,” he insisted.

Pacific Rim seems to have particularly riled the sensitive Zhang. “The decisive battle against the monsters was deliberately set in the South China Sea adjacent to Hong Kong,” he fumed. “The intention was to demonstrate the US commitment to maintaining stability in the Asia-Pacific area and saving mankind.”

**Less vocal**

*Popular blogger arrested*

There are enough brothels in Beijing to make the average punter think that the authorities don’t regard the sex trade – which is technically criminal – as a serious offence. That is, of course, unless you happen to be a liberal-leaning blogger with more than 12 million followers on China’s Twitter-like service Sina Weibo.

Sixty-year old Charles Xue, or Xue Manzi, as he is better known, was arrested last Friday night on suspicion of soliciting sex. The Chinese-born US citizen, who is best-known for his canny investments and philanthropy, happened to be in the company of a 22 year-old named Ms Zhang, a police statement said.
Xue’s detention came shortly after other internet personalities – several of whom have called for more transparency from the authorities – were taken into custody on accusations of rumour-mongering.

And another online opinion leader was also sent a warning shot last week when his blog was clearly identified in a TV programme about the danger of online rumours. The blog belonged to Lee Kai-fu, the former head of Google in China, who has commented previously on sensitive political and social issues.

Earlier this month Beijing announced its intention to “crackdown” on online rumours as part a Xi Jinping’s ‘mass line’ campaign, which is aimed (among other things) at rekindling the study of Communist ideology.

“The spreading of rumours on the internet and other such criminal activities has become a social nuisance that infringes the vital interests of citizens, disrupts public order and endangers social stability,” a statement on the Public Security Bureau website said.

The Bureau said that it was alerted to the problem by members of the public upset by rumours that the Maoist icon Lei Feng didn’t live as simply as official propaganda claimed.

Qin Zhihui and Yang Xiuyu, founders of a company accused of spreading that speculation, were detained last Thursday, it said, for “making a profit from spreading online rumours”.

Liu Hu, a journalist at the Guangzhou-based New Express newspaper, was also detained on Saturday night on the same charge, according to state media.

On Sunday it was reported that Zhou Lubao, a citizen journalist, had been arrested for supposedly extorting money from temples by threatening to write negative stories about them online.

“The masses and public opinion require that such people be punished,” the People’s Daily advised. “It is urgent that we purify the internet environment.”

Although there have been several campaigns to rein in social media before – real name registration on weibo last year, for example – this is the first such drive under the new president, Xi Jinping. The suspicion is that the government will now take a tougher line with some of the more contentious celebrities, who are known as ‘big V’ colloquially (the ‘v’ stands for ‘verified’ in the sense that the celebrities put their own names to their online opinions).

Earlier this month, the head of the State Internet Information Office, which monitors online content, called a meeting of ‘big V’ bloggers and urged them to be more constructive in their postings. Xue Manzi, who recently ridiculed a Shanghai official for soliciting prostitutes, may now be getting the message rather more forcefully, with state broadcaster CCTV showing him in his prison fatigues, as well as his confession that he has consorted with call girls in China and on trips overseas (“bad habits”, he admits).

Xinhua has been quick to offer a view as well, reporting comments from a prostitute that Xue had “special obsessions” and (even worse) sometimes refused to pay.

Xue’s case is a reminder to those who challenge the government that they can expect closer scrutiny, said Hu Xijin, editor of the state-owned Global Times. “If you go down this road, your arse had better be clean,” Hu warned on his own weibo.
Among candidates for China’s greatest humiliation on a basketball court, high on the list is a match played in Afghanistan in 1970, when a Chinese side was beaten 58-39 by an Afghan squad coached from scratch by an American Peace Corp volunteer named Tom Gouttierre.

Gouttierre told TIME magazine this month that he initially thought his team would get thrashed, not least because his team was much smaller in height. But thanks to superior on-court organisation and fitness, Afghanistan gained under his guidance its first-ever international basketball victory.

Not surprisingly the Chinese couldn’t believe they had been beaten by a team largely composed of students from Kabul.

But if that result seemed bad, it pales in political significance to the performance of the national team at this month’s FIBA Asia Championship in Manila.

In what is regarded by many as a new low, the nation’s basketball team was beaten 96-78 by Chinese Taipei (the name under which the Taiwanese sports team competes). As a shocked Global Times pointed out, this was “the first time for Chinese Taipei to take out their far more prominent mainland cousins”.

Sun Qin – editor of the publication Basketball Pioneers – wrote on his Sina Weibo account: “I have been commenting on basketball for nearly 20 years but I have never felt so ashamed over a game.”

The defeat capped what had already been a humiliating tournament for the Chinese team. Erstwhile giants of the Asian game – thanks to players like Yao Ming – China failed to make even the semi-finals this time, resoundingly beaten by South Korea and Iran. As Sohu Sports points out there was a litany of dreadful statistics to deal with too: the team’s largest losing margin ever (19 points); the fewest points at half-time (24); and the lowest full-time points haul (just 57).

Defeat at the hands of its island neighbour was more painful for Chinese sports fans, coming as it did after the country got thrashed 5-1 at soccer by Thailand (see WiC198).

The damning verdict of Sohu Sports: “Of China’s 1.3 billion people, we could not even find 11 people that can play football, and now it becomes difficult to find five who can play basketball.”

The Economic Observer was also quick to publish a post-mortem. For starters, it said, the team has failed to bring in new blood. Six of the ageing players had featured in the line-up at the Beijing Olympics in 2008. But the newspaper had a host of other reasons for what it termed the “Manila Waterloo”: including skill levels that have been dulled by too few games in the local leagues, referees who give Chinese star players an easy time in club matches, a non-existent transfer market and a “pseudo-professional” ethic in the CBA League.

Mulling further on the “national humiliation”, the deputy editor of Sports Weekly noted the weakness of the grassroots talent system: “China hasn’t produced an excellent guard in more than a decade.”

Sohu Sports concurs on the grassroots issue, reckoning there are 500,000 registered basketball coaches in the US but just 100 in China.

Others preferred to speculate on who would be sacked after the poor showing. China News Service says the director and deputy director of the China Basketball Management Centre have been fighting between themselves and one may have to go. Nor is there apparently any love lost between deputy director Hu Jiashi and the team’s Greek coach Panagiotis Yannakis, who were caught on camera refusing to shake hands.

But it might be a bit too soon to fire the coach himself, as he was only appointed in April.

“It has been too short a time for the coach to adapt to China,” China News Service agreed wisely. “We cannot simply make a judgement on him because of one win or loss.”
**Photo of the Week**

Visitors flee a tidal bore on the banks of the Qiantang River in Hangzhou

**In Numbers**

**11.6%**
Percentage increase in industrial profits in July, compared with 6.3% in June, says the National Bureau of Statistics. Chinese manufacturers made Rmb419.5 billion in profits in July, bringing the January-July total to Rmb3 trillion, a year-on-year increase of 11.1%. July’s profit rebound was likely led by better performance in power generation, information technology, oil refining and in the car industry.

**Rmb100 trillion**
Total debt in China – government, corporate and household – up from 130% of GDP in 2008 to nearly 200% today, according to central bank data. Such a rapid increase in borrowing has led to crises in countries like Argentina and South Korea.

**Rmb1.3 billion**
The amount Rongsheng Heavy Industries Group – one of China’s biggest shipbuilders – reported in losses in the first half of the year. Rongsheng issued an unusual call on the government for financial support recently after running down its cash in order to sustain its operations.

**1,200**
Tonnage of beer drunk at this year’s Qingdao Beer Festival. The event received 4 million visitors in 16 days.

**Where is it?**

Some of the places referred to in this issue

With 1.3 billion people, 293 languages and an often opaque business culture, China can often seem as mysterious as the Mona Lisa. Our easy-to-search website now helps you to find some of the answers. It contains a growing archive of more than 3,000 WIC articles.

And the site has another advantage: subscribers are able to read us on the move each week via their Blackberry or iPhone. To get our weekly email and access the site, you’ll need to go to www.weekinchina.com/welcome/ and sign up. It takes just a couple of minutes to register.

Sign up today!