Gas contract finally signed with the Russians, but did the Chinese get the better of the deal?
Deal of the century?

Years in the making, a Sino-Russian gas deal benefits from new urgency

My enemy’s enemy is my friend’ is a pithy phrase but hardly a new one. The concept is thought to have been first expressed in a Sanskrit treatise on statecraft in the fourth century BC. Much later Winston Churchill invoked the sentiment once more in defence of wartime aid to the Soviet Union. In the battle with Germany Britain’s leader said he had put his anti-Communist sympathies aside, declaring: “If Hitler invaded Hell, I would make at least a favourable reference to the Devil in the House of Commons.”

In the contemporary world of power politics, the phrase is again being applied to Russian relations with China. Faced with a hostile reception in Europe and the US, Moscow has looked east to China, a country that has chosen not to condemn Vladimir Putin’s annexation of Crimea. In part China’s Russia policy is an extension of its own deteriorating relations with Washington. Prime among these are its strategic concerns over the US “pivot” to Asia (which China views as an attempt to militarily thwart its own regional ambitions). Relations received another jolt last week when the US Justice Department indicted five Chinese army officers on charges of espionage.

Putin’s visit to Shanghai brought back into sharp relief the idea of ‘my enemy’s enemy’ as he portrayed the bear and the dragon as grand bedfellows in a US-dominated world. In an interview with local media Putin called China “our trusted friend” and claimed that cooperation between the two countries had “reached its highest level ever”. In a remark that seemed squarely aimed at the White House, Putin also said of the new Sino-Russian amity: “Our positions on the main global and regional issues
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are similar or even identical.”

And the Russian president was keen to provide more concrete evidence of his reorientation from west to east. So even before he arrived it was widely touted he would sign a 30-year deal to pipe vast amounts of gas into China. Doing so would demonstrate the strengthening of ties, analysts thought, as well as allow the Russians more room for manoeuvre with some of their international critics.

After years of bickering over the terms, the contract was finally signed last week.

So a deal is signed at last?
Most of the press has reported that there were 15 years of negotiations leading up to last week’s announcement, although Xinhua dates the dialogue back even further to 1994, when the first memorandum of understanding was signed between the two countries on gas exports.

Whatever the starting point, the talks have advanced at a glacial pace. And while eight further agreements have been signed over the last 10 years, there’s been no sign of final terms being reached.

Early last week the Russians turned up in Shanghai showing a much greater sense of urgency. The deal was “98% ready,” Anatoly Yanovsky, deputy energy minister, told media before the trip, while Putin also claimed that negotiations had reached a “final phase”. Gazprom’s chief executive Aleksey Miller was convinced that the two sides were just “one digit” away from agreement, while another Russian spokesman maintained the positive mood last Monday by promising that a contract would be signed at “absolutely any moment”.

That made it something of a shock when the Financial Times reported that talks had broken down at the end of the second day of the Russian visit. The Chinese were blaming price, it suggested. “We won’t be signing,” an unnamed CNPC official had insisted. “At the moment the import price and domestic price are inverted. We are already losing money on imported gas, and we can’t lose more.”

Perhaps the source was misquoted. More likely his comments were aimed at the Russian negotiators. Talks continued until 4am the following morning and a deal was finally announced a few hours later. Putin and his Chinese counterpart Xi Jinping then toasted one another with shots of moutai at the signing ceremony. “This is the biggest contract in the history of the gas sector of the former USSR,” the Russian president celebrated.

Who got the best of the negotiation?
The implication is that CNPC pushed aggressively for a better deal than the Russians were first offering. “Our Chinese friends are difficult, hard negotiators,” Putin said, in a statement that veered somewhere between exasperation and admiration. The Chinese had already got their way last year on the route for the pipeline after the two sides squabbled over where the gas should arrive in China. The Russians were pushing for the Altai route into Xinjiang in China’s northwest but the Chinese demurred on concerns that this was too far from their main cities. They were also suspicious of Russian intentions, worried that the Altai routing allowed Gazprom to pump gas from fields in western Siberia that also supply the Europeans. Not wanting to be played off against other customers, the Chinese asked for dedicated supply from fields further east. They got their way last September when Moscow agreed to build the Power of Siberia pipeline as an alternative route.

The Russians seem to have held firmer on ownership, however, following reports that CNPC wanted to invest at least $10 billion in joint development of the Siberian fields. There was no mention of equity last Wednesday so Chinese calls for a stake in upstream production seem to have been resisted. This fits with the Kremlin’s unspoken block on
Chinese ownership in its energy sector (although CNPC did get approvals last year to buy a fifth of the Yamal LNG project led by Novatek, Russia’s second-biggest natural-gas producer after Gazprom).

How about price?
Price has been the main sticking point for years. Gazprom hasn’t wanted to drop below its European tariff levels, fearing other customers will demand discounts too. But the Chinese counter that they won’t pay more than they do for the gas they buy from Turkmenistan.

Russian Prime Minister Dmitry Medvedev continued to insist on benchmarking against European prices in remarks earlier this month that “in the long run, the price will be fair and totally comparable to the price of European supplies.”

Of course, the reference to “the long run” left Russian negotiators with some wriggle-room. But the final outcome on pricing is largely unknown as Gazprom is insisting that the terms are a “commercial secret”. In the meantime the estimates are being based on the headline numbers (a $400 billion contract for 38 billion cubic metres of gas annually over a 30-year period) and the consensus is that Beijing is going to pay about $350 per thousand cubic metres. That would be pretty similar to the prices from Turkmenistan and less than the $380 average that Gazprom demands from its European customers.

Gazprom has pushed to link contract prices to the cost of oil – an arrangement similar to the one used with customers in Europe – but CNPC hasn’t been keen, saying it sees gas imports as more of an alternative to coal. A basic agreement on indexing was reached last year, although there’s been wrangling over the benchmarks to be used.

But Craig Pirrong, a finance and energy professor at the University of Houston, says that speculating about pricing is pointless without a better understanding of the index arrangements. “Since nobody knows what that formula is, they have no clue on what the real price is,” he insists.

Elsewhere, there are calls for more clarity on how much of the contract will be prepaid (Russia needs the cash to finance its own construction costs, which are estimated at a minimum of $55 billion). Alexander Medvedev, the head of Gazprom’s export unit, has said previously that $25 billion was agreed “in principle,” Reuters has reported.

But Gazprom’s CEO Aleksey Miller then admitted that the two sides were still talking about the final sum. “That little slip by Miller is a huge red flag that this deal isn’t as done as the principals claim,” Pirrong warns. “If that part is still under discussion, the entire thing is still under discussion.”

There was more pressure on Russia to do the deal than China?
The Global Times says that it’s not too bothered if the contract hasn’t been completed. “It’s like two brothers doing business,” it explained. “Even if there is no deal, the trust is still there.”

Yet it was brinkmanship rather than brotherly love that was apparent in Shanghai last week. The Chinese knew that Putin couldn’t leave without a major announcement. Levering up the pressure, they pushed the Russians hard until the early hours of Wednesday, before stepping back and clinking glasses on a contract announcement.

But the celebration doesn’t mean that a final deal has been done. Putin may have saved face but it has cost the Chinese little in negotiating terms. And what seems more likely is that the two countries came to an outline agreement last week but left key items like price and upfront payments for another day.

The bigger picture is that the Chinese have been developing other options to meet their gas needs until 2020. An initial pipeline from Turkmenistan that reaches China through Central Asia opened five years ago and Beijing agreed to fund a fourth spur for the pipeline.
though Tajikistan and Kyrgyzstan in March.

In a timely reminder to Moscow of China’s choice of options, Xi Jinping also hosted the Turkmen president for a three-day visit two weeks ago.

Last year CNPC started getting gas from a second pipeline that links fields off the Burmese coast with the Yunnan border. Likewise China has been building more terminals for delivery of liquid natural gas (LNG), becoming the third-largest importer globally last year.

These alternatives mean that time is on China’s side in the pipeline negotiations, says Feng Yujun, an expert from the Chinese Institute of Contemporary International Relations. As Beijing broadens its options, Moscow’s position weakens, especially if spot prices drop further in response to the shale gas glut in the United States.

“China should actually sit back,” Feng told 21CN Business Herald. “There is no rush to get this agreement inked as the conditions in the international gas market favour its position.”

For Putin the need for a deal is much more pressing. Partly that reflects the threat of sanctions over the Ukrainian crisis, although Gazprom also needs to lessen its reliance on exports to Europe because the shale revolution has been threatening profits.

This combination of pressures may have weakened Russian resistance during the negotiations, even though Zhang Xin, CNPC’s head of external communications, told Russian agency Interfax that the Chinese weren’t using events in Ukraine to push for cheaper gas.

Asked by reporters in Moscow whether political tensions with Europe were shaping the talks, Yury Ushakov, a presidential aide of Putin’s, took a slightly different view. “Obviously, they do affect them to some extent,” he said.

Comments last week from Chen Weidong, a senior researcher at CNOOC, one of China’s three energy giants, then drew comparisons with a “loan for oil” agreement signed with Russia five years ago.

The oil contract also took a long time – 16 years, Chen told Caixin magazine – to come to fruition. More significantly the breakthrough came when Russian oil firms were under financial pressure from the global credit crunch, Chen believes.

Analysis from Morena Skalamera at Harvard University then offered more comparisons with current events. She says that the major terms for the oil deal were reached in the aftermath of Russia’s invasion of Georgia in 2008, when relations with the West were at their worst point since the Cold War. Here, the similarities with current tensions over the Ukraine look obvious.

Does the gas contract herald a wider shift in international ties?

Some analysts seem to believe that Putin’s trip is signposting a shift in relations similar to China’s rapprochement with the United States after Richard Nixon’s visit in 1972. It’s true that there are forces pushing the two countries closer together.

Russia has commodities to sell but a shortage of people. China’s problem is the opposite. More specifically in gas, Russia needs new markets while China has to find a cleaner source of energy than coal. Gas accounts for just 6% of its energy production currently, far below international averages. Gas imports will be crucial in closing the gap: China’s shale resources aren’t expected to generate a meaningful supply for years.

Yet talk of a deeper transformation in relations on the back of last week’s deal looks premature.

For one thing, the Russians are
Talking Point

cautious about becoming too dependent on the Chinese. Reflecting some of those concerns, Andrei Pontkovsky, a political analyst, told the Economist magazine last week that an alliance between Russia and China could be likened to one between “a rabbit and a boa constrictor”.

Australia’s former ambassador to China Geoff Raby told CNBC that current ties between Beijing and Moscow are as “good as it gets”. But he cautioned that “historically, there is a lot of fundamental mistrust in this relationship”.

Similarly, an editorial in the Financial Times noted that Russia is now the junior partner in the pairing, a state of affairs that Putin’s “proud” compatriots might well struggle to come to terms with.

The new pipeline isn’t going to be operational until 2018 at the earliest (and possibly longer, say the pessimists) and even then China won’t come close to replacing the Europeans as Russia’s biggest gas customer.

The headline number for the gas deal is huge but the $400 billion of sales is spread over a 30-year period. The Europeans are already buying four times as much gas from the Russians on a yearly basis than the amounts anticipated in the contract signed in China last week.

China’s wider economic ties with Russia also trail those with Europe and the United States by some distance. Russian politicians have predicted that two-way trade with the Chinese will grow to almost $200 billion by 2020. But that is dwarfed by trade between China and the US, which was already close to $500 billion in 2012. At $450 billion in trade flows, business with the European Union was even higher.

There’s also the question of what happens when the political conditions change and Russia feels less in need of an energised relationship with the Chinese to offset its colder ties with the West.

While Putin’s strongman style has been admired by many Chinese (see WiC229) some netizens have warned against expecting too much from a partnership with Russia too. “Don’t trust the Russians,” one contributor urged. “They have never kept a promise and don’t expect them to do so this time.”

“Putin is the winner again,” declared another. “The deal has secured export contracts for Russian gas and bailed him out from the Ukraine fiasco. But when the pipeline is finished and the [Ukraine] crisis is over, Russia could then export to Japan and Korea.”

Chen Weidong from CNOOC made a similar point about the oil contract with Moscow. Looking back at how the mood changed once the 2008 cash crisis had receded, Chen complains that the Russians negatged on parts of the deal.

“A lesser known fact is that after the pipelines began carrying crude oil, Russia never sent the 15 million tonnes of oil that were supposed to get to China by train,” he warns.

“It seems that China and Russia only complement one another when Russia is in need.”

And the band played on

It inspired one of the most popular films in Chinese cinema history. But as metaphors go, references to the Titanic have an unmistakable message: something grim is about to happen. So it’s not an analogy you’d expect from a real estate developer, particularly when the property mood has turned so jittery. But Pan Shiyi launched the cursed ship at a conference last Friday, telling the forum: “I think China’s property market is like the Titanic and it will soon hit an iceberg in front of it.” According to CBN, the SOHO China tycoon added: “After hitting the iceberg, the risks will not only be in the real estate sector. The bigger risk will be in the financial sector.”

Pan’s view is that wealth management products and trusts will be drawn into the panic. “When housing prices fall 20% to 30%, these problems will all be exposed,” he suggested.

It turns out that he only gave his gloomy outlook because he had been assured there were no journalists in the room. “I didn’t expect there to be countless reporters hiding [in the audience],” he wrote later on weibo. But for property bears Pan’s predictions are further evidence that real estate bosses are more fearful about the market in private than they are in public. Another property executive – Mao Daqing of Vanke – made headlines with similarly bleak comments at a private dinner recently (see WiC236).
The major news items from China this week were...

1 Tensions in the South China Sea rose again on Tuesday after the sinking of a Vietnamese fishing vessel occurred in waters near a Chinese oilrig that’s anchored in a disputed zone off Vietnam’s coast. In the latest incident, a Chinese vessel rammed and sank the Vietnamese boat about 17 nautical miles southwest of the oilrig on Monday afternoon. China said the Vietnamese boat “capsized when it was interfering with and ramming” a Chinese fishing vessel from Hainan province.

2 Alibaba has announced another investment this week, paying $249 million for a 10.35% stake in Singapore Post Limited (SingPost). SingPost is a 150 year-old state postal service which has been repositioned as a profit-generating logistics and delivery operator. Alibaba says the investment will cover “other e-commerce opportunities in Southeast Asia and beyond by providing amongst other things, greater access to SingPost’s international logistics capabilities, infrastructure and delivery networks, as well as end-to-end solutions to Alibaba Group customers and merchants.” Alibaba made $6.5 billion in revenues in the first nine months of last year but only 9% of that was attributed to international operations.

3 China’s Ministry of Finance said this week that it has asked local governments to speed up spending on infrastructure and other budgeted investments to boost growth. Some spending has been relatively slow this year and the ministry says it will take back any unspent budget by the end of September. In the first four months, fiscal spending was up 9.6% year-on-year, down from an increase of 13.6% last year.

4 Chinese telecoms equipment makers have won the majority of 4G contracts from China Mobile to build out its mobile network. ZTE and Huawei received 34% and 31% respectively of the awards in the latest round of contracts. Ericsson and Alcatel-Lucent each won 9%, and Nokia received 8%. This latest batch represents about 40% of the contracts that China Mobile will award this year, involving the construction of about 100,000 base stations.

5 Three Chinese government agencies launched a “special operation” this week to monitor WeChat, the hugely popular mobile messaging app operated by Tencent, in an effort to save the public from “objectionable, illegal and harmful information”. The campaign is part of a broader move to dilute the influence of social media among Chinese internet users. Tencent has already closed the personal accounts of people with more than 20,000 friends and has now set new caps of 5,000 friends per personal account in an apparent bid to prevent messages from spreading more widely.

6 Shenzhen will auction off 200,000 carbon permits to help the city’s larger polluters meet their targets under an emissions trading scheme. The auction, the first such sale in the city, will see permits sold at a minimum price of Rmb35.43 ($5.68), according to the China Emissions Exchange, which runs the market. Speculators who had bought permits in the hope of selling them to emitters at a profit said the auction price was too low and could scupper their resale plans.
Between 1996 and 2000 the revenues of an American energy company broke new records, rising 750% to $100.8 billion. If that seemed too good to be true, it’s because it was. The firm was Enron and it was rigging its accounts.

Chinese media has been reporting on a local company that has been cooking the books too, albeit on a much smaller scale than Enron. The firm is Nanjing Textile and according to the stock regulator it inflated profits for five years running. The CSRC investigation found that fictitious returns of Rmb300 million ($48.1 million) were created between 2006 and 2011. In one year alone the P&L was boosted 5,500% by accounting tricks.

The size of the fraud isn’t jaw-dropping. But what is grabbing more attention is that Nanjing Textile’s owner is the city’s state asset administrator (Sasac). That makes it one of the most prominent cases in which a listed state-owned firm has been caught fiddling the numbers – and the first example to surface publicly over the past decade.

The wrongdoing at Nanjing Textile seems to have been prompted by fears that it would be booted out of the stock market. As regular readers will be aware, listed firms that make losses for three consecutive years risk being dropped from the bourse (a fate facing Nanjing Tanker, see WiC227). All the same, National Business Daily describes the fraud as “surprising”, noting that executives at state-owned businesses normally face much more regulatory oversight. With less personal incentive to cheat, they’re normally less motivated to indulge in account rigging too. Stock market scandals over dodgy balance sheets are more common among non-state firms, the newspaper points out.

Founded in 1978 and originally a maker of garments, Nanjing Textile floated in 2001 on Shanghai’s stock exchange. By this point it had already diversified into a number of other businesses from light industry to chemicals. More significantly it also set up a real estate company in the year it went public to develop a property portfolio in Nanjing. That firm, Landsea, accounted for the bulk of the parent’s profits over the next five years.

Between 2004 and 2009 the parent sold down its Landsea stake to a 21% holding. This hit annual profits, leaving Nanjing Textile with its more poorly-performing legacy businesses. A consulting unit – which also had a stake in Landsea – was sold too. (The purchasers of the shares were members of the property unit’s management, according to 21CN Business Herald, which grabbed headlines long before the CSRC’s more recent revelations.)

Nor did it help that Rmb1 billion was spent acquiring Nanjing Nantai International Exhibition, a division that only contributed a measly Rmb8 million in profits.

Nanjing Textile’s performance “nosedived” after its better assets had been stripped away, comments National Business Daily. To hide the decline, the management team then resorted to boosting the numbers, primarily with fraudulent export rebates and overstated contract revenues.

Already punished is Nanjing Textile’s former president, Shan Xiaozhong who was jailed last year (albeit for corruption rather than accounting fraud). According to 21CN he was sentenced to 13 years for siphoning about Rmb200 million from the company (which WiC hazards was a further drag on cashflow).

And now that the regulator has finally unravelled the extent of the company’s accounting deceit, what further punishment has the CSRC levied? Surprisingly, the retribution was not too onerous: the company has been fined Rmb500,000, while its three top executives have been fined smaller amounts and given warnings. The penalties provoked consternation in the press. The People’s Daily wondered how such a “light punishment” could be levied, adding “will the low cost of violating the rules only instead encourage others to commit fraud?” The newspaper argued that the securities laws needed updating to allow for bigger fines. Other media pointed out too that the company hasn’t been delisted, nor its auditor sanctioned for its failure.
Clicking with investors

Why JD.com’s IPO bodes well for Alibaba

Am I worried about what Liu Qiangdong is doing today? I have never met this person, he can do whatever he wants for all I care.”

Jack Ma seemed a little dismissive of his rival Liu – the chairman and chief executive of JD.com – in an interview with China Entrepreneur last year. And although Ma didn’t seem to consider Liu as a worthy challenger back then, he may be watching developments at JD.com a little more closely now, after it sold shares in a private placement to Tencent, China’s dominant social networking company and Alibaba’s most formidable rival, in March.

Last week JD.com also raised $1.8 billion on Nasdaq in an IPO that beat Alibaba’s own offering to the punch. Its stock closed 10% up on the first day of trading (and is 33.7% above the IPO price).

Commentators say that the enthusiasm for JD.com’s listing bodes well for Ma, who is eyeing the biggest internet IPO ever. “It is the pre-game show for Alibaba,” Rett Wallace of Triton Research told the Financial Times. “But the differences between JD.com and Alibaba are more interesting than the similarities.”

JD.com does compete against Alibaba Group but the two employ very different business models. Alibaba acts mainly as a middleman, operating a third-party platform on which vendors sell goods to consumers. JD.com carries its own inventory and sells directly to consumers. It also operates its own warehousing facilities and logistics network. That business model requires much more capital, which is one reason why JD.com reported a net loss of $608.4 million in the first quarter, despite 65% growth in revenues. It continues to pour money into developing its logistics operations. Between December and March this year, it added 10,000 staff in distribution and customer service, bringing the total to 40,000.

CNBC tested it out, and was impressed when an order made from an apartment in Beijing was delivered in just two hours (and the item only cost Rmb29, or $4.64).

Enthusiasm for the stock was strong, despite revelations that JD.com had awarded Liu 93.7 million more shares, worth $591 million, as a one-off bonus shortly before the IPO. This was granted “in consideration of his past and future services,” according to the company prospectus.

“Obviously if company funds are paid just as a matter of executive compensation and not for shareholder value, wouldn’t that automatically mean that shareholder rights aren’t being fairly treated?” asked Michael Cheng, research director for China and Hong Kong at the Asian Corporate Governance Association.

Its detractors in China seemed more concerned about JD.com’s long-term prospects.

“No matter how you look at it, JD.com is a company that’s chronically losing money. It is very strange that for the same piece of metal, many people in China consider it junk, but others in the US think it very valuable. Something that’s ‘worthless’ in China is worth $30 billion in the United States [JD.com’s valuation],” Beijing Times mused.

But foreign investors seem eager for a chance to profit from China’s burgeoning e-commerce market. Last week online cosmetics site Jumei.com climbed 11% on its own trading debut in New York (for more on its colourful chairman see Who’s Hu on page 16). Earlier this month, the tour booking website TuNiu also went public on Nasdaq and has since doubled its IPO price.

 “[Chinese] tech stocks, along with China concept shares, are on the mend,” celebrated the China Daily.

In a number of cases, old economy shares haven’t been doing as well as their internet peers. China National Rail, the state-owned maker of bullet trains, dropped below its IPO price on the first day of trading (it has since inched back up so slightly) in Hong Kong. Similarly, pork producer WH Group also pulled its planned IPO in Hong Kong last month (see WiC235).
In 2011, when Luo Yonghao thought his fridge door wasn’t shutting properly, he made several complaints to Siemens, the manufacturer (see WIC132). When the German firm said that it didn’t see any problems, Luo brought the fridge to the firm’s head office in Beijing and smashed it to pieces with a sledgehammer. It’s one way to make a point...

But when Luo decided that China’s smartphones weren’t up to scratch, his response was a little more constructive – he decided to design a model of his own.

Last week Luo unveiled the Smartisan (‘smart’ and ‘artisan’) T1 smartphone. Luo describes it as “the easiest-to-use smartphone in the Eastern Hemisphere” with “the best screen” and “the fastest mass-produced mobile CPU”. It runs on Smartisan OS, a variant of Android, Google’s mobile operating system.

Unlike Xiaomi, a domestic smartphone maker with a reputation for low-priced handsets, Smartisan’s T1 doesn’t come cheap. The basic version starts at about Rmb3,000 (about $480), which is high-end by Chinese standards. Xiaomi’s Mi 3 – which has a slower processor (1.8 Ghz vs. Smartisan’s 2.5Ghz) – is priced from Rmb1,700.

“If you can’t afford it, it just means that you’re not our target customer,” Luo told the Beijing Times.

Industry commentators have been sceptical about Luo’s ambitions, asking how a former English teacher has been able to design and manufacture his own brand of smartphone. But Luo isn’t unique in braving a completely new industry. “Xiaomi’s charismatic co-founder Lei Jun had little or no background in smartphones, and his company has become one of the hottest names in the area in the last two years. So perhaps there’s some hope for Smartisan,” says Doug Young, author of Young’s China Business Blog.

How Luo is funding his new venture isn’t clear but he hasn’t been working alone. The T1’s minimalistic and sleek design was conceived by Apple’s former lead designer, Robert Brunner, who now runs Ammunition in San Francisco (the same studio that designed the Beats headphones). Even the packaging box for the T1 is custom-made, by James Cropper, a 169-year-old fine paper specialist from the UK.

Engadget, a tech blog, is impressed by Luo’s efforts: “We can go on and on with the list of features. What’s certain is that an insane amount of thought has been put into both the hardware and the software, making the T1 a truly unique and passionate product,” it commends.

China Science Daily is also a fan. “Smartisan fully embodies the ‘artisan spirit’. Every detail of the phone and small innovation demonstrates the thoughtfulness and hard work of Luo and his team,” it gushed.

But will consumers buy the T1? Phoenix Technology has reported that two days after Luo’s launch presentation, Smartisan had already sold more than 50,000 handsets, about a tenth of its sales target.

Perhaps the sales goal is feasible if Luo can convince a reasonable proportion of his 6.8 million followers on Sina Weibo to buy one. “The target customer of Smartisan is undoubtedly Luo’s loyal fan base,” says Caijing. “Even at Rmb3,000, he believes that there are enough like-minded people who would pay the price”.

TechWeb, another tech blog, agrees, believing that many Smartisan buyers are paying a premium less for the handset design and more out of “idol worship”.

But Hong Bo, an IT analyst, says that the T1 still has to prove itself through extended usage and is probably overpriced by as much as Rmb2,000. That could be more of a factor if Luo follows through with plans to launch it overseas where, unlike in China, he is virtually unknown.

Luo’s Smartisan handset
The Dow Chemical Company started out by making bleach in 1897. Its founder Herbert H Dow grew the firm into a chemicals giant, using the mantra: “If you can’t do it better, why do it?”

China’s media is now pondering whether Dow is going through another ‘why do it’ moment after years of frustration over a huge investment in Shaanxi province.

21CN Business Herald, CBN and Shanghai Securities News have all reported that Dow has withdrawn from a joint venture with coal behemoth Shenhua to build a coal-to-chemicals project. They picked up the news initially from ICIS, a website that focuses on the global chemicals business. It claimed that the Rmb128.5 billion ($20.57 billion) initiative was no longer going ahead.

Located near the city of Yulin, the complex intended to tap abundant coal reserves and convert them into plastics and other chemicals with Dow’s gasification technology. With a planned annual output of 3.5 million tonnes of olefins and polyvinyl chloride, the plant was touted as the largest coal-to-chemicals unit anywhere in the world, with the construction plan envisaging a 700,000KW power station.

The project’s gestation period has been lengthy, to say the least. Talks began as far back as 2005 when Dow and Shenhua signed a letter of intent. In 2007 they began a feasibility study and they lodged a formal application with the government for the plant three years later. The plan was to start construction in 2013 and begin production by 2016.

But when CBN sent a journalist to the proposed site in the Yushen Industrial Park, it found it “barren” and lacking in activity.

Delays in receiving state approvals have been blamed for the slow progress. Now that looks to be less of an impediment after the environmental protection agency finally gave its blessing a fortnight ago. Surprisingly the approval didn’t trigger celebratory comment from either company. Instead an insider told Shanghai Securities News: “The project will certainly not continue.”

The barrage of publicity this week earned a response from Shenhua. On Wednesday a statement appeared on its website refuting media claims and stating the initial phase of the joint venture was “progressing as planned”.

Dow had been quieter, but WiC contacted its US headquarters to get more clarity. “Dow does not address speculative reports,” a company spokesperson wrote back by email.

“Dow and Shenhua Group jointly submitted The Project Application Report (PAR) to China’s National Development and Reform Commission (NDRC) in late 2010. A revised PAR to address the initial issues from the NDRC was resubmitted in March 2012, and expert panel reviews are in progress. We have undergone a series of successful project reviews over the past year. While we are awaiting government approval, we continue to work with our partner, Shenhua, to fine tune the business scope and details.”

However, those news outlets that have run stories on the Yulin project speculate that it is threatened less by regulatory concerns than plain business logic. For one thing, the outlook for China’s chemical industry has deteriorated. And as CBN points out, declines in the price of coal have eroded Shenhua’s financial resources too.

Dow already counts China as one of its largest markets, with 20 production facilities. However, the out-
look for the gasification venture is considerably less bullish than in 2010 when its management approved the joint venture (media say the division of ownership gave Dow a 30% stake, and Shenhua 70%). Curiously for such a vast undertaking the Yulin project got no mention whatsoever during discussion of Dow’s results in January (for future growth, the $12.5 billion Sadara project in Saudi Arabia was cited by management).

Two trends are making life harder for chemicals firms in China. Costs are rising because of new environmental protection measures. And surplus capacity is driving down margins. Sun Weishan, the deputy secretary of the Chinese Petroleum and Chemical Industry Association, told China Energy News that the petrochemicals sector had 200 million tonnes of overcapacity last year. He estimated that potential supply would rise to 790 million tonnes in 2015, but that demand would amount to only 510 million tonnes.

A vast new chemical complex would worsen the surplus – although Yulin will not impact the capacity equation for some years. Indeed, even if construction at the site began tomorrow, production would not start before 2017.

The scheme still has cheerleaders, wed to the promise of the coal-gasification technology involved. Over the past decade China has tried to embrace the process, seeing it as an answer to the country’s energy dilemma. China has plentiful reserves of coal. Converting it to natural gas – a cleaner option for power stations, or alternatively to make plastics and textiles – looks like a winning option.

One of the pioneers of the technology is South Africa’s Sasol, which commercialised the gasification process during the apartheid era as a way of offsetting international oil embargoes. Sasol also had a joint venture with Shenhua for a proposed plant in the Ningxia Hui autonomous region. But it pulled out of the project a couple of years ago, frustrated by decisionmaking delays, the South China Morning Post reports.

The newspaper says foreign partners like Sasol are sought for their superior technological know-how. Local designs have not always proved successful. For example, a Rmb16 billion coal-to-chemical plant commissioned by Datang in Inner Mongolia has seen “disappointing” production results “due to technical difficulties”, claims the SCMP. Indeed, one of the reasons that Shenhua views Dow as an attractive partner is its technological expertise, especially in carbon capture – where carbon dioxide from a plant is buried deep underground to prevent emissions entering the atmosphere.

In fact environmental concerns are now a major hurdle for the industry as a whole. While substituting coal for gas looks environmentally beneficial, there are snags. One problem is that many of the parts of China with coal reserves also tend to be arid. The gasification process requires a lot of water (the coal is exposed to steam at high temperature). The estimate is that 10 tonnes of water are needed to create a single tonne of liquid fuel.

This is a conundrum that has already dogged Shenhua. As we reported in WIC207, members of environmental group Greenpeace stormed a company press conference in Hong Kong last September. Shenhua’s startled management then headed for the exits, leaving activists to tell journalists their concerns about a coal-to-liquid petrochemicals plant in Inner Mongolia. Greenpeace claimed the project has resulted in a loss of 50 million tonnes of water from the Haolebaoji region over the last eight years, causing the nearby Lake Subeinaoer to shrink by two-thirds.

Yulin lies on the border of the Ordos desert, adjacent to Lake Hongjiangao, China’s largest ‘desert freshwater lake’ (it too has shrunk by half, local activists say). The shrinkage may explain why Dow and Shenhua’s gasification complex has struggled for so many years to obtain all the requisite approvals.
When it comes to the China market, Microsoft cannot be accused of short-termism. Back in 1998 it was one of the first foreign firms to open a research laboratory in Beijing (indeed it was its largest such lab outside of its corporate headquarters in Washington state’s Redmond). It went on to spend $100 million in China in an effort to cultivate local talent. Founder Bill Gates even made a trip to visit China’s then president Jiang Zemin.

But Gates’ meeting with Jiang didn’t go very well. The president was concerned by the dominance of Windows software. According to the book *Think Like Chinese*, Jiang also lectured Gates that he should study Chinese culture so as to grasp how to do better business in the country.

Jiang may have had a point. Despite heavy investment in China, the tech giant has generated little profit because of widespread piracy (see WiC66).

But Microsoft (briefly) had better news last month when it was given the green light to sell its popular games console the Xbox One in the Chinese market, starting in September.

Yusuf Mehdi, corporate vice-president for marketing and strategy in Microsoft’s devices and studios unit, hailed the breakthrough as a “monumental day.” As Mehdi told the Financial Times: “Launching Xbox One in China is a significant milestone for us and for the industry.”

But celebrations in Redmond were cut short when Beijing announced last week that it was banning the use of Microsoft’s Windows 8 operating system (OS) on government computers.

Why were the restrictions launched? Xinhua explains that the move is intended to protect computer security after the shutdown of Microsoft’s XP software, which the company stopped supporting last month. A few weeks later a major security hole was found in Microsoft’s Internet Explorer browser. Microsoft’s detractors in China complain that it was willing to abandon Windows XP despite its widespread use; so there was no guarantee it won’t do something similar with Windows 8 at a later date.

In response, Microsoft says it was surprised by the ban, as it has been working with government procurement officials to make sure Windows 8 meets standards.

The timing is interesting, to say the least. Industry observers say Beijing’s combative action is a retaliatory act against Washington’s accusations of cyber spying in the Chinese military. Last week the US Justice Department filed criminal charges against five army officers, accusing them of stealing trade secrets from US corporations such as Alcoa, US Steel and Westinghouse. It’s the first time that the US government has charged employees of a foreign power with cybercrime. Beijing has hotly denied the allegations.

Microsoft isn’t the only US tech firm to feel the heat of Chinese indignation at spying claims. Networking equipment giant Cisco and mobile phone chipmaker Qualcomm have also come under similar scrutiny over the last year after former National Security Agency contractor Edward Snowden released information about US government surveillance in China.

This week a report by the China Internet Media Research Centre also described China as “a main target” of US surveillance, claiming that Washington has eavesdropped on state leaders, scientific institutes, universities, companies and individuals. “The US spying operations have gone far beyond the legal rationale of ‘antiterrorism’ and have exposed its ugly face of pursuing self-interest in complete disregard of moral integrity,” Xinhua fumed.

This week Beijing also ordered state-owned enterprises to cut ties with American consulting outfits like McKinsey and Boston Consulting Group because of fears that they may be spying on behalf of the US government too, says the FT.

Meanwhile is this a complete disaster for Microsoft? “Windows is far too embedded in the Chinese economy for it to be banned completely but certainly we should expect to see sensitive offices and systems reduce if not eliminate their use of it,” says Bill Bishop, a consultant based in Beijing. But he added the recent moves signalled foreign tech firms should be “very worried about their prospects” in China.
Economy

While the world refers to it as Shanghai’s Free Trade Zone (or FTZ), the project’s official name is the China (Shanghai) Pilot Free-Trade Zone. The name is important because it underlines how the zone is an experiment. Support from the central government will be crucial for its success.

Fortunately for the zone’s champions, it has finally got some high-level endorsement, albeit 10 months after it was inaugurated.

On Friday none other than President Xi Jinping became the first senior leader to visit the 29 square kilometre enclave. Xi toured the zone together with Shanghai Communist Party chief Han Zheng and mayor Yang Xiong last Friday. Xi’s inspection trip may have been fleeting but it was a stamp of approval nonetheless. “The decision to build the zone was an important step in China’s reform and opening up in modern times,” Xinhua quoted him as saying.

Initially the FTZ was regarded as Premier Li Keqiang’s baby. Apparently he fought tenaciously to get the State Council to approve the project last summer and he has hinted regularly that the zone will serve as a showcase for the next round of economic reforms in China. But Li was nowhere to be seen at the zone’s launch in September last year (Commerce Minister Gao Hucheng was the most senior official to attend the ceremony) and no other member of the Politburo Standing Committee has been seen there either.

That led to speculation that the zone wasn’t fully endorsed by some of China’s most senior decision-makers and some of the excitement surrounding its launch began to evaporate. Businesses seemed to be holding back on investing until there was more clarity on what would be permitted there, with rumours that progress had stalled while different factions championed rival visions for the project.

But something seems to have shifted last week. Not only did Xi visit the zone, he also delivered a number of speeches on market reform, including one to the Politburo on Monday night. “Although economic reform has made progress in recent decades, market vitality is still shackled by many institutional flaws,” Xi told the 25-person body. “Straightening out the relationship between the two will continue to let market forces play a decisive role in allocating resources while making sure the government functions better,” he added.

“Xi’s inspection of the FTZ sends a strong signal to the outside world that China is properly committed to the idea of deeper reform and opening,” Zhang Jun, director of Economic Studies at Fudan University, told CBN.

“People used to ask why Li Keqiang didn’t come to the zone [for the launch ceremony]. Now Mr Xi has come, so I guess there’s nothing to worry about any more over whether the central government supports the free trade zone or not,” an unnamed source told the South China Morning Post.

The day before Xi’s visit officials released long-awaited details on ‘Free Trade’ accounts in the zone and how currency can be transferred between the FTZ and the rest of China. Beneficiaries will be able to move renminbi into their ‘free trade’ accounts from offshore, although they won’t be allowed to transfer funds into their standardised domestic bank accounts.

In a report on the new rules, HSBC analysts said that the boundary would “maintain a firewall for China’s financial system” but that the new regulations were an important step in emphasising a “firm commitment to capital account opening.”

There was another vote of confidence in the zone’s future from Sony on Monday, when the Japanese company announced two joint ventures with the Shanghai Oriental Pearl Group to make PlayStation consoles inside the FTZ. Last month Microsoft also announced plans for a joint venture in the zone. It is pairing up with BesTV and hopes to start making the Xbox in China as soon as September.

“I’ll drink to that”
When Zhu Rongji was appointed vice premier in 1993, central government revenues were a paltry 12.6% of the economy – the lowest among the major economies – and less than half of local government’s combined fiscal take. The Ministry of Finance (MoF) even had to borrow money from the provinces in some of its more cash-strapped moments.

Local governments were also allowed to appoint regional banking executives, which led to runaway lending and surging public debt. A tangled web of credit known as “triangle debts” grew between local governments, state firms and the banks. Eventually it accounted for a third of all bank loans. Another byproduct of the surge in money supply was inflation, which got as high as 17% in major cities. In May 1993 the World Bank warned that a major financial crisis was looming.

What Zhu did next was centralise fiscal power. Employing an iron-fist effort, he began to clear the triangular debts. Zhu made personal calls to the bosses of state firms, telling them to repay overdue loans. At one point he even appointed himself as governor of the People’s Bank of China so as to curb the expansion in credit.

Zhu also pushed through a tax-sharing system that tilted the balance of power firmly towards the central government in Beijing and away from the provinces. From this point on the central government collected the bulk of taxes and then redistributed the proceeds to the localities. To rein in local governments further, Zhu banned them from issuing bonds in 1993. A year later a new budget law prevented municipalities from running fiscal deficits.

Zhu staved off financial crisis but a consequence of his crackdown was that local governments were starved of revenues. To balance the books they were forced to sell land to property developers. Thus a new problem was created: local governments were soon in thrall to the property market. In some cities this has led to chronic overbuilding, creating a new vulnerability for the economy.

Beijing now seems prepared to decentralise some of its control over local finances. Premier Li Keqiang said in his first work report in March that an appropriate devolution was one of the State Council’s top priorities this year. To underline the intent, it was announced last week that some local governments will be allowed to sell bonds directly to investors once again – just over 20 years after Zhu first stopped them.

The MoF said last week that 10 local governments, mostly from more affluent provinces and cities including Beijing, Shanghai and Guangdong, would participate in a pilot scheme to sell bonds of their own. The maturities of the new bonds will range from five to 10 years.

The central government has been edging towards a fuller reopening of the municipal bond market since 2011. Last year Beijing allowed six local governments to offer up to Rmb65 billion ($10.5 billion) worth of bonds, albeit with a catch: the central government issued the debt on their behalf. The MoF said in March it would allow a further Rmb400 billion of local government bonds to be issued this year. But this time round – thanks to the new initiative – up to Rmb109 bil-
lion of the quota will be set aside for the municipal bond pilot scheme announced last week.

According to the People’s Daily, the MoF has been responsible for the repayment of both the principal and the interest on the municipal bonds issued over the last two years. But it won’t be involved in the upcoming round of municipal debt. “Issuers will sell bonds and repay the debts directly. The central government won’t bear any liability under the new pilot scheme. It is a big breakthrough,” the newspaper said.

The National Development and Reform Commission then confirmed that the plan was for municipal bonds to replace the much-criticised local government financing vehicles (LGFVs, see WiC110 for our first mention of these funding arms). The borrowing platforms don’t appear on local government balance sheets but a national audit last December suggested more than 10,000 LGFVs had borrowed Rmb17.9 trillion, or about 32% of the country’s GDP. Many analysts think this understates the true amount of local government exposure. They also warn that a lot of the debt will never be repaid.

CBN saw other positives in the municipal bond reforms, hoping that they would encourage the emergence of objective credit ratings for China’s provinces and cities. “There will be more business opportunities for local brokerages and rating agencies, whose involvement is vital for a mature debt market,” it said. “The accuracy of credit ratings depends on information transparency. This will pressurise local governments to improve their fiscal management, as well as their related disclosures to the public.”

Beijing also seems set to change rules preventing local governments from running fiscal deficits. This requires a revision to the budget law, but faces opposition from those who worry it will be abused.

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**Who’s Hu: Chen Ou**

Profiles of China’s business leaders

“Their dreams, live a wonderful life and be ourselves……I’m Leo Chen. I’d like to represent myself.”

That was how Chen Ou concluded a TV ad in 2012. The minute-and-a-half monologue turned out to be a marketing miracle. What seemed to be self-promotion helped to turn his firm into China’s leading online seller of beauty products, including brands like Calvin Klein, Estee Lauder and Elizabeth Arden. It also led to Chen becoming one of China’s youngest billionaires.

**Getting started**

Born in Sichuan in 1983, Chen got a scholarship aged 16 to study computer engineering in Singapore. Before graduation in 2005 he co-founded internet game firm Garena. In 2009 – aged just 26 – he then became the youngest Stanford MBA graduate from China.

Afterwards Chen and two classmates started another venture, Reemake, that ran ad spots in online games. But it struggled to make money and Chen switched tack, restructuring it into a group-purchasing website for cosmetics. It subsequently became Jumei in 2010, growing into more of a B2C platform for cosmetics and concentrating on better-known brands.

**Big break**

Jumei battled with more established rivals such as VIPshop (see WiC182) and Chen began appearing on reality TV shows about young entrepreneurs to win attention. He also networked furiously, persuading Xiaomi’s charismatic chairman Lei Jun to become one of his mentors (for more on Lei, see WiC176). Chen’s efforts helped raise his profile and venture capital firm Sequoia Capital made a $9.5 million investment. Then came the highly successful “I am Chen Ou” campaign in 2012. In a month Chen’s weibo following climbed 50% to 1.5 million fans, while Jumei’s online traffic more than tripled. Chen said later that the 99-second ad was worth hundreds of millions in advertising spending. But he also says he is aware of the dangers of being high-profile. “In China, we have a saying about ‘shooting the bird that takes the lead.’ Personal branding can promote a company as well as ruin it. Nowadays my words, appearances and even my private life may affect the reputation of my company,” he warns.

**Net worth**

Jumei went public on the New York Stock Exchange this month, raising $250 million. Its market capitalisation reached $4 billion at one point, giving Chen a net worth of $1.4 billion. Detractors were soon claiming that he owed his success to his family connections. But he hit back on his weibo. “Since I was a kid I would be beaten up by my father if I didn’t come first in exams,” he claimed. “I jumped a grade in high school because I came first among all primary school kids in my city. And I didn’t use a penny from my family as I got a full scholarship to study abroad. My father doesn’t know a thing about the internet but I wouldn’t be myself today without him. My character is the biggest fortune he has given me.”
During the promotion of his new movie Coming Home director Zhang Yimou stressed that he wasn’t just rehashing the arthouse panache of his early films. “I do want to return to political filmmaking,” he said. “I will go back to my roots. But like the characters in this film, I am not the same as I once was, and I won’t go back to [political films] in the same way.”

What is not in doubt is that Coming Home deals with a highly ‘political’ period. It is set during the Cultural Revolution – an era normally viewed as taboo in Chinese cinema – and follows the traumatic story of an intellectual banished to the countryside.

Zhang’s first films came out in the 1980s and were unsparing, gritty tales that won him international fame. But his latest offering, which is based on the final 30 pages of the novel The Criminal Lu Yanshi by Yan Geling, is not quite as edgy. It sidesteps most of the hardship of the Cultural Revolution and focuses more on the enduring love story of a couple who survived it.

The film tells the story of Lu Yanshi, who, upon returning home at the end of the Cultural Revolution, discovers that his wife (played by Gong Li) fails to recognise him because of “psychogenic amnesia”. Lu has to try all manner of trickery – like pretending to be a neighbour who comes to read her husband’s letters – to help jolt her memory.

As Zhang himself puts it: “[The film] is not so much about the Cultural Revolution but its aftermath: how do you repair your life and still pay the debt of the Cultural Revolution?”

Some critics say they feel a tad underwhelmed: “Perhaps his vision, ideas and creativity have been blunted over the years. A decade of political mass destruction now turns into a 110-minute love story under Zhang’s helm,” opined Yangcheng Evening News.

Others argue that Coming Home shouldn’t be considered as an arthouse movie. “The film clearly has a
commercial angle in mind. All the marketing skips the politics and centres on everlasting love. And the producers are also spending up to Rmb40 million ($6.4 million) to promote the film, far exceeding the total production cost," snipes Gao Jun, a critic.

But moviegoers don’t seem to mind: “My conclusion is that it is the best film Zhang Yimou has made and will make in this century... He is still exploring ways of using a film to review, examine and even criticise the shortcomings of a unique era. A lot of these things still have strong practical significance today,” says Suo Yabin, an associate professor at Communication University.

“I watched Coming Home with my in-laws and my wife. My tears couldn’t stop flowing... But my mother-in-law says the film shows very little history, the actual brutality was much greater,” Dan Bin, a popular microblogger with over 7 million followers, wrote on weibo.

At an advance screening, Hollywood Reporter also noticed that several older viewers sat tearfully in the cinema long after the credits had rolled. “I watched the entire film in tears,” Yuan Li, editor of the Chinese Wall Street Journal, also admitted.

While the film seems to have struck a chord with the older generation, younger netizens grumbled that it was “too slow”. Some even said they were “bored to tears”. As one mused online: “Older people quietly weep in the cinema while those born in the post-90s generation fall asleep.”

Snooze or snuffle, Coming Home has been a financial success, making over Rmb200 million at the box office since it opened on May 16. Revenues of more than Rmb300 million would be a record for an art-house film in China.

Industry insiders have also suggested that the success of Coming Home proves the commercial value of films that target an older audience. “Through strong word of mouth, more and more middle-aged audiences are lured back to the theatre again,” says Bai Hui, a cinema operator.

“Iron ore prices are coming off because we see massive expansions coming”

Glencore boss Ivan Glasenberg blames BHP Billiton, Rio Tinto and Vale for falls in iron ore prices, saying the three miners have an “obsession” with increasing supply. Iron ore prices have dropped over a quarter this year to around $95, which is welcome news for China’s beleaguered steelmakers.

Together again: Zhang with the acting muse of his early films, Gong Li

Photo Source: Imagine China
Here’s a riddle fit for a Sphinx – why would developers in the northern city of Shijiazhuang build a life-size replica of the famous Egyptian monument (see photo) only to say that the plan was always to pull it down?

The reason being given for the demolition is that the iron-and-concrete structure was built for a TV series filmed in Hebei’s capital city. But information on the television production has been scanty. The more probable explanation is that the Sphinx was intended to attract tourists but that its promoters panicked when the Egyptian Antiquities Ministry got wind of the replica and threatened to lodge a formal complaint with the UN agency that protects cultural heritage.

“We will address UNESCO Director-General Irina Bokova to inform her that the reproduction of the Sphinx harms the cultural heritage of Egypt where the statue is registered on the World Heritage List,” Egyptian Antiquities Minister Mohamed Ibrahim insisted last Friday.

Tourism revenues, one of mainstays of the Egyptian economy, have dropped steeply in the last three years amid political unrest, and Cairo won’t want the Shijiazhuang Sphinx siphoning off potential visitors from China.

The chatter online suggested that this might already be happening. “There is Sphinx in Hebei, I will just go and have my photo taken there and everyone will think I have been to Egypt!” one person celebrated on weibo.

Another wrote: “Going to Shijiazhuang is a lot safer and cheaper than going all the way to see the original!”

China has copied other destinations in the past. In 2012 a developer in the southern province of Guangdong built a replica of the Austrian lake-side village of Hallstatt (see WiC114). Other famous reconstructions include a version of downtown Manhattan in Tianjin, a recreation of Le Corbusier’s Ronchamp Chapel in Zhengzhou (since torn down after furious protests from the French) and a copy of London’s Tower Bridge in Jiangsu.

Nor is it the first time that a seemingly irreverent attitude to Egyptian antiquity has got the Chinese into trouble. This time last year a Chinese teenager made headlines by carving his name into the walls of a 3,000 year-old temple in Luxor (see WiC195; his unimaginative graffiti: ‘Ding Jinhao was here’).

Now, as then, many Chinese newspapers adopted an outraged tone at Shijiazhuang’s effrontery.

In an article asking “Who will rescue us from our cultural laziness?” the Guangdong Daily fumed: “The Shijiazhuang Sphinx has resulted in total embarrassment for China. Not only did it reinforce our reputation as a ‘knock-off’ nation but it also makes the world see how neglectful we are of history and culture.”

WiC has to admit, though, that it looks like a reasonable copy.

Camel ride, anyone?
In Numbers

**9.6%**
Percentage increase in profits by Chinese industrial firms in April, reaching Rmb468.6 billion ($75 billion) from a year earlier, but slower than the 10.7% rate recorded in March, says the National Bureau of Statistics.

**85,000**
The number of property developers in China, according to China Vanke’s chief executive Yu Liang. In an interview with the South China Morning Post, Yu said that the recent downturn in the property sector will mark the beginning of a consolidation in the industry. “It’s not going to be big fish eating small fish,” he says. “It will more be in the form of cooperation rather than takeover.”

**5 million**
The number of vehicles China plans to take off the roads this year in a bid to improve air quality, with 330,000 cars set to be decommissioned in Beijing alone and 660,000 withdrawn from Hebei, one of China’s smoggiest provinces.

**Rmb500**
The cash bonus that authorities in Xinjiang are considering giving tourists from other parts of China this summer. The number of visitors to the province has fallen sharply after a series of deadly attacks in the last few months.

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Photo of the Week

Already packed: He Liang rides his home-made suitcase in Changsha

Where is it?

Some of the places referred to in this issue

![Map of China](image)

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