A target set in stone?

Investors wonder if this year’s GDP growth rate will fall to 7% or less
"The world’s most important economy" is the descriptor used by the Financial Times when it refers to the US these days. That may seem a little subjective, but the newspaper clearly wants to avoid describing America as the ‘world’s largest economy’. That’s because official data showed that – on a purchasing power parity basis – China’s economy surpassed America’s in size in the second half of last year.

The FT reported at the weekend that in 2014 the American economy had grown at its fastest pace in a decade. By contrast the performance of the world’s biggest economy was getting fewer celebratory headlines. The consensus is that GDP growth has been slowing in China.

In fact, the FT’s Asia editor David Pilling even speculated this week that India could topple China as the world’s fastest growing economy as soon as next year. The World Bank reckons it will happen in 2017 (when China grows at 6.9% and India at 7%).

Owing to its size, China’s growth rate is of more than passing interest to businesspeople around the globe – which means all eyes are on the figure for 2014 and the government’s GDP target for this year.

But of equal importance is the sustainability of that growth rate and the economic reforms that will be required to deliver it. So when Premier Li Keqiang travelled to Guangdong last week his trip was loaded with symbolism. Talking up the case for reform, Li was consciously drawing parallels with the earlier ‘Southern Tour’ of Deng Xiaoping, in which the then paramount leader signalled his preference for a market-based approach.

So amid the continuing talk of a slowdown, the debate is broadening into a discussion of the new economic direction that China is going to take.

How is GDP growth looking?
The official numbers are due for release later this month. But growth slowed notably to 7.2% in the final
TODAY’S DECISION IS TOMORROW’S LEGACY.

Lasting success goes beyond numbers and percentages. At HSBC we have a unique global perspective, which allows us to see the extraordinary impact that today’s business decisions can have in the future. That’s why we focus on building long-term partnerships with our clients, so that we can help them move forward in the right way.

www.hsbcnet.com/growth

IT’S NEVER JUST BUSINESS
quarter of last year, according to the predictions of 31 economists polled by Reuters, marking the weakest performance since 2009, when China was contending with the collateral damage of the global financial crisis. In a similar survey for the full year Bloomberg estimated that growth is going to top out at 7.4%, which would mean that policymakers have just missed the annualised goal anticipated by most analysts.

Qu Hongbin, HSBC’s Chief China Economist, says it’s best not to obsess about the final number. “Whatever GDP growth in 2014 turns out to be, it won’t be far away from the government’s 7.5% target,” he told the South China Morning Post. He also believes that it’s not worth speculating much on the specifics of this year’s growth goals either, as a single number is unlikely to be given.

Instead, expect an indicative range, most likely between 7% and 7.5%. “The main reason is probably to make it an easier target to hit or even exceed,” Qu explains. “So 7% will probably be taken more as the bottom line.”

How will the goals be met?
Premier Li Keqiang is calling for a revitalised effort to maintain growth “within a proper range”, as China wrestles with the challenges of an economic “new normal”.

His agenda is said to include a stepping back from stimulus as a means for juicing up growth; a determination to slash debt in the financial sector; and a readiness to oversee structural change, even at the expense of short-term pain (see WiC204 for a ‘Likonomics’ lesson).

Li trumpeted the same message during his three-day tour of Guangdong province last week, where he left flowers at a statue of Deng Xiaoping in Shenzhen, revering the man who led China’s opening up over 35 years ago.

On his trip to Shenzhen, Li called for economic reforms

He then met a group of former officials who accompanied Deng during his own landmark trip to the city in 1992, and encouraged Shenzhen to continue exploring ways to push reform “bravely”, and not to be afraid of making mistakes.

Then again, media reports that the government is pushing ahead with investment across at least 420 infrastructure projects valued at Rmb7 trillion ($1.1 trillion) this year seem to jar with Li’s focus on a less interventionist style of economic management.

Spending at that level would dwarf the Rmb4 trillion stimulus of 2008, for instance, implying that Beijing is going back to basics by pump-priming the economy for the year ahead.

The NDRC, China’s top state planning agency, has been accelerating project approvals since last summer with total spending increasing by 21% year-on-year to Rmb10 trillion by November (see WiC265 for details of its giving the go-ahead for a second mega-airport in the capital city, Beijing).

This struggle between medium term ambitions for fiscal discipline and the more immediate imperatives of keeping the economy growing at a high rate is something we’ve remarked upon before, most recently in WiC233.

Perhaps mindful of the parallels with earlier efforts, spokespeople at the NDRC have refused to confirm the full estimates for their latest investment plans. More pertinently, they say the programme bears little resemblance to the past, with a new focus on revitalising the economy by restructuring it, rather than stimulating it with a cavalcade of cash.

Hence the focus on seven key areas for investment (including infrastructure, environment and healthcare), which aims to dispel suggestions of an across-the-board handout, as well as the renewed emphasis on wooing private capital rather than relying purely on public funds.

“It’s not a stimulus programme by expanding fiscal input. It’s about guiding social capital into investment projects,” Luo Guosan, a deputy director of NDRC, told the domestic media. “It has nothing to do with the Rmb4 trillion stimulus plan in 2008, and it is fundamentally different from that.”

A new approach is needed?
One factor in favour of a new direc-
tion is that China can no longer rely on parts of the economy that used to supercharge its growth. A good example is the role of the property industry as a bulwark.

Earlier this month Shenzhen Special Zone Daily exemplified the sector’s contribution with a story about the visit of another political heavyweight to Shenzhen, Zhu Rongji, then China’s Premier, in 1997. During a roundtable discussion Zhu clashed with Wang Shi from property firm Vanke, after Wang wondered aloud whether real estate could really become the energising force that Zhu hoped.

Zhu shot back that property had to take on the responsibility because the other options for stimulating growth were limited.

“What if we abolish the hukou system?” he asked his audience in a stage-managed style, before answering his query with a “No, we cannot”.

“What if we open up the financial markets,” he continued.

“No, we cannot,” Zhu rhetorically countered again.

“And what if we open up consumer credit”?

“No, we can’t,” he insisted. “At least, not within the next two years.”

With these options exhausted, real estate would have to take on the task itself, Zhu claimed. “I must promote the property sector to become a pillar industry within two years,” he told his audience.

Since then the property business has contributed an ever-increasing share of gross domestic product: at least 15% – and much more if the knock-on effects on other industries are considered.

More recently real estate has been acting as a drag on the wider economy, with sales contracting by about 10% and falling prices biting into homeowner and investor confidence. Investment in the sector to November slowed to 11.9% from 19.5% in 2013, for instance, and the slowdown is draining the financial resources of local governments, which rely on revenue from land sales for about a third of their income. Proceeds fell sharply for much of the year although the impact is only going to start showing up in the coming months, analysts warn, because of the two-quarter time lag between auctions and the final payments.

So where is the momentum going to come from?
The long-term goal is that China’s consumers will start spending more, unleashing a new era of growth. But although retail sales have been growing at more than 10% a year, this isn’t enough to herald the deeper transition to a more consumer-driven economy. Sales were also slowing in the final quarter of 2014 as consumer confidence dipped.

Optimists hope that shoppers will feel a little richer as the fall in oil prices feeds through into lower energy and heating bills. Businesses might benefit from the prolonged slump in global commodity prices, delivering cheaper goods to shops and supermarkets (producer prices fell about 3% in December from a year earlier, the 34th monthly drop in a row).

But others see the price declines as a mixed blessing, reflecting chronic overcapacity in many industries, as well as weaker demand for their final goods. The gnawing fear is that deflation becomes self-fulfilling as lower prices crimp profits and reduce the incentives for companies to invest, while consumers hold back on larger purchases in the hope that prices will drop further.

This year will witness the lowest salary growth for at least a decade, says McKinsey, the consultancy, and this promises to be a shock for a workforce that has grown accustomed to double-digit increases. It comes at a time also in which the chances of making a killing in property are waning too, the report notes.

The impact of this slowing wealth generation could be dramatic because few of China’s better earners were members of its ‘middle class’ the last time that there was a significant downturn.

“They could well overreact to a small slowdown and turn it into...
a larger one as a result,” McKinsey warns.

**Will the reform agenda deliver an economic dividend?**

One approach to buoying spending is encouraging people to save a little less. Here we can expect more media coverage of pilot plans to reform the household registration system (the much hated hukou that Zhu referred to in his dialogue with Vanke’s Wang). This will allow better access to city schools and hospitals for millions of migrant workers currently barred from benefiting from municipal services.

That might also prompt millions of new consumers to commit more confidently to spending, as well as spurring the further population transfers from rural regions (the upshot: earlier returns on China’s massive investment in urban infrastructure).

Another item on the agenda is mixed ownership reform – i.e. bringing the private sector into state-dominated industries (see WiC230). That could lead to spin-offs of parts of the state’s largest commercial empires, as already seen with Sinopec’s fuel distribution business (see WiC251).

A third strategy is to foster the advance of China’s tech sector. That’s already happening as companies like Alibaba and Tencent start to shake up industries once dominated by staid state giants, including telecoms and banking.

In Shenzhen last week Li Keqiang visited WeBank, China’s first internet bank, which is co-owned by Tencent. “We will lower costs for and deliver practical benefits to small clients, while forcing traditional financial institutions to accelerate reforms,” the prime minister promised at the opening ceremony. “It’s one small step for WeBank, one giant step for financial reform,” he added (paraphrasing the words that were first used when Neil Armstrong landed on the moon – which suggests to us he views financial reform as a pretty major challenge).

This week Tencent and JD.com (Alibaba’s nearest e-commerce rival) also served notice that they are targeting the auto sector with a major investment in Bitauto, a provider of online marketing and e-commerce services for carmakers.

This kind of activity is making the bosses of the internet firms the new darlings of government officials, says Feng Lun, the chairman of Vantone, a large developer. Feng noted at a forum in Hainan last month that the tech titans are stealing the limelight from long-time participants at the top table, like the property bosses. “In the past, the internet-based new economy was the ‘concubine’ of local governments, and we [the developers] were their ‘wife’,” he quipped. “But now the seats have changed, and they [the internet companies] have replaced us. The only face-saving thing is that we are allowed to sit at a nearby table and watch them eat.”

Of course, policymakers want to see the internet transforming more traditional industries, as its influence spreads to companies, creating new efficiencies and benefits. Focusing on the ‘building blocks’ of the digital economy is a must, McKinsey suggests, with cloud computing, wireless communications, big data analytics and online sales platforms all expected to deliver a productivity boost.

This will help the thousands of smaller, privately-held enterprises that struggle to reach China’s fragmented marketplaces or lack the resources to compete with their better-financed but more wasteful state-owned peers. But bigger firms should also benefit. If just six sectors (automotive, consumer electronics, chemicals, real estate, financial services and healthcare)
Talking Point

Tap more directly into the tech boom they could deliver as much as Rmb1.2 trillion of new GDP each year, McKinsey believes. New analytics are going to improve inventory management and sales forecasting; innovative distribution platforms will bring down sales and marketing costs; and online collaboration will prompt breakthroughs in innovation and design (for early signs of the power of Xiaomi’s ‘ecosystem’, see WiC247).

Across the Chinese economy as a whole the pay-off could be even greater, reaching Rmb14 trillion of gains a year by 2025. A third of this upside stems from the creation of new markets, McKinsey’s report concludes, with the remainder coming from companies doing things more efficiently than they do today.

Are near-term worries about a slowdown overdone?
Markets are jittery these days, in part because of worries about the global impact of slowing growth in China. But if fears of this type have become the conventional wisdom, not everyone shares the pessimistic outlook. For example, the influential creator of the BRICS concept, Jim O’Neill, estimates that even at a slower growth rate, China is going to add more to the world economy this year than the US, when measuring their respective outputs on a purchasing power parity basis.

Indeed, while the market has become fixated with the percentage rate of Chinese growth, it’s helpful to look at China’s absolute GDP increases too.

Hence if we assume the economy grew 7.4% last year (versus 7.7% in 2013) that would equate to Rmb4.35 trillion of added GDP. Okay, that was less than the Rmb4.94 trillion that the economy added in 2013, but it still works out marginally above the mean for the previous decade, which was Rmb4.33 trillion.

By that calculation 2014 was, in Chinese economic terms, an average year. And if the economy grows at just 7% this coming year – adding another Rmb4.41 trillion – it looks like being another fairly average year again... ■

**Stockholm Syndrome**

In the 1990 movie Crazy People actor Dudley Moore plays an ad executive who has a nervous breakdown. He then comes up with a series of “truthful” advertising campaigns, which turn out to be surprise hits. One of these is for Volvo, and carries the tagline: “They’re boxy, but they’re good”. Not too flattering but it pretty much summed up the way that many Americans regarded the Swedish tank-like cars in the nineties.

But what happens when the Volvo isn’t made in Sweden but in China instead? That is the issue that the carmaker will face when it begins selling its China-made S60L in the US. Volvo’s CEO announced the move this week at the North American International Auto Show in Detroit, but as the Financial Times noted: “The question is whether US consumers are ready for vehicles made in China, which lacks a strong reputation in carmaking.” The FT reckons it will be the first time a mainstream carmaker has attempted to sell a Made in China vehicle to Americans (Moore’s character would probably have come up with the slogan: “You thought it was Swedish, but it’s actually Chinese”). Volvo’s Chengdu factory can make 120,000 of the S60L cars a year, although the jury is out on how many will be exported to the US.
China has banned the import of US eggs and poultry after a strain of H5N8 influenza was discovered in the US last month. The ban follows the discoveries of a strain of influenza in wild birds and in a ‘backyard flock’ of guinea fowl and chickens in Oregon, as well as the detection of another strain in California and Washington. China’s ban impacts shipments of breeding stock, including live chicks and hatching eggs, as well as poultry and eggs. More than 20 countries have imposed restrictions on imports of poultry products from certain US states or the entire country.

Century Weekly reported that Shanghai officials spent official money on a lavish Japanese dinner near the site of a deadly stampede, which took place on New Year’s Eve, killing 36 people. The victims’ families have blamed the tragedy on poor government planning. To make matters worse, the dinner came amid a widespread corruption crackdown and calls by President Xi Jinping for cadres to cut down on lavish meal expenses.

Alibaba Group is in talks to buy a minority stake in India’s One97 Communications, owner of an online payments processor. The Chinese e-commerce company plans to invest a maximum of $200 million in One97, reports Bloomberg. Alibaba’s financial arm, Zhejiang Ant Small & Micro Financial Services Group, is discussing a separate investment in the Indian firm. Industry observers reckon that the move will help Alibaba, which is eager to expand outside China, by finding a local partner that understands the Indian market.

At Detroit’s car show, Elon Musk told reporters that the electric carmaker’s sales in China were “unexpectedly weak” during the fourth quarter. He said that while there had been “significant” increases in European and North American demand, China had suffered because potential Chinese customers don’t think China’s charging network is sufficiently built-out to ensure that Tesla’s cars can cover significant distances. Investors reacted to his comment sending Tesla stock down 6% on the after-hours on Tuesday.

Sinopec is considering an initial public offering in Hong Kong this year for its petrol station and convenience-store unit, which could raise more than $5 billion. If successful, it will be one of the biggest IPOs in Asia this year. The unit, Sinopec Marketing, received approval from the Chinese government last month for a sale of around 30% of the company, Sinopec said, but gave no further details about the listing. Sinopec currently has 30,000 petrol stations and 23,000 convenience stores in China.

Taxi drivers across China have gone on strike leaving thousands of people scrambling to find alternate transportation. The strikes appear to have been fueled by the spread of hailing apps like Uber which works with private (unlicenced) drivers (see last week’s issue for more on recent government restrictions on such apps). Beijing, Shanghai and Chengdu were among the 10 major cities impacted by the strike.
Not many investors dare to bet against Hong Kong’s richest man, Li Ka-shing. “You never question Superman’s acumen to time the market,” warns Cho Yan-chiu, a respected Hong Kong commentator who helped to popularise Li’s superhero nickname.

The examples are numerous. In 2000 Li listed his internet start-up Tom.com (the IPO was oversubscribed 2,600 times). Very soon afterwards the dotcom bubble burst, indicating that the savvy Li had sold at the top.

More than a decade before that – in September 1987 – Li announced a HK$10 billion ($1.3 billion) recapitalisation plan for his listed companies. Again, he had picked the perfect time to tap the market. Hong Kong shares were trading at an all-time high. Less than a month after the fundraising, the market crashed so badly that regulators had to impose a four-day trading halt.

So when the 86 year-old unveiled a new plan to overhaul his two flagship holdings last week, local analysts were soon pondering the meaning behind Li’s asset allocation strategy. Before the restructuring, Li had organised his empire in a linear structure: he controls Cheung Kong, the holding firm of Hutchison Whampoa, which in turn owns the other listed units. But the overhaul sees both Cheung Kong and Hutchison reshuffled into two new entities.

The real estate assets held by the two Hong Kong blue chips are to be folded into CK Property. The non-property assets – essentially international businesses that span ports, retail, energy and telecoms – will make up the other new conglomerate, called CK Hutchison.

Singtao Daily says the new entities will become sister firms directly controlled by Li, but the upshot is that the tycoon will cut back his direct exposure to Hong Kong real estate (from a 43% stake in Cheung Kong to a 30% stake in CK Property) while raising his stake in the group’s global operations (from a direct 2.5% share of Hutchison to a 30% stake in CK Hutchison).

That had local media wondering whether Li has turned bearish on the future of Hong Kong’s property market. “When Superman Li decides to sell, you’d better not buy,” Singtao Daily warned. “Li is now cutting his exposure to property. It doesn’t mean the market will crash tomorrow but investors should be very cautious if they want to take Hong Kong real estate as a long term investment.”

As part of the plan Li is also switching his companies’ incorporation away from Hong Kong to the Cayman Islands. This intensified the speculation that the tycoon’s enthusiasm for his adopted home city is waning. The concerns found their way into the mainland Chinese newspapers, with Southern Metropolis Daily noting that Li’s move recalls that of Jardine Matheson, a considerably older conglomerate, which moved its domicile away from Hong Kong in 1984. “The Cayman Islands are British territory. Many critics believe that if the new CK companies run into legal tussles in the future, Hong Kong would have no jurisdiction,” it suggested.

The Global Times waded in too. “Obviously Li is not sending a message that he is fully confident in China,” it thought. It also wondered if the decision was a sign that Hong Kong’s tycoons are finding it more difficult to make money in mainland China, because of the rise of local businessmen such as Alibaba’s Jack Ma and Dalian Wanda’s Wang Jianlin. Li lost the title of Asia’s richest man to Ma after Alibaba’s successful listing in New York last year.

But last week’s restructuring has helped Li get the number one spot back. Investors gave the plan an emphatic thumbs-up – analysts say they consider the structure tidier – with the share price of Cheung Kong climbing nearly 15% on Monday and Hutchison also up. The move increased the pair’s market value by nearly $12 billion, boosting the tycoon’s net worth. This offers another interesting comparison with Jardines. In the trading session following the announcement of its own relocation in 1984, its Hong Kong shares plunged nearly 6%, notes Southern Weekend.
Sri Lankan setback

Presidential vote to hit China’s Silk Road plans?

Sri Lanka’s geographical position in the Indian Ocean means that it has often found itself chafing under the bit of colonial powers seeking to dominate the shipping lanes between the Middle East and Asia.

Less well known is the fact that the first maritime power that tried to assert its control was not the Portuguese in 1489, but imperial China in 1408. According to Sri Lankan chronicles, the Chinese admiral Zheng He tried to force King Vijayabahu to pay tribute to the Ming Emperor and carve a tablet in his celestial honour. When Vijayabahu refused, he was packed off to China on the admiral’s treasure fleet.

The Chinese have a slightly different take on the matter. They say Zheng got caught in the crossfire between the Hindu Tamils in the north and two Buddhist kingdoms in the centre and south of the country (the more recent civil war was fought along similar ethnic lines, with China’s arms sales helping the government to defeat the Tamils).

But history may now be about to repeat itself with Sri Lanka’s new president, Maithripala Sirisena, pledging to roll back Chinese investment on the grounds that it is a new form of imperialism and has primarily benefited the former president and his cronies. Key will be what happens to China’s largest investment – a $1.5 billion port city development on reclaimed land in the capital city Colombo. According to Ceylon Today, the Chinese were awarded 88 hectares of the 233-hectare site on a 99-year lease. Only four months ago Xi Jinping laid the foundation stone for the Monash-sized project. But it may yet turn out to be the modern day equivalent of Zheng’s tablet, with Sirisena pledging to cancel the project during his election campaign.

Over the past decade Chinese investment in Sri Lanka has risen 50-fold. China is now the island’s largest lender and donor by some margin. The most high profile projects have all been located close to former President Mahinda Rajapaksa’s hometown of Hambantota. These include Mattala Rajapaksa International Airport, which has been shunned by most airlines on the grounds that it is dangerously sited (it’s on the flight path of migrating birds). One former opposition MP decried it as a total waste of public funds, suggesting it would be an achievement if the government made enough money back to pay for painting its walls.

Close by is the Magampura Mahinda Rajapaksa Port, also named after the former president. For China, the port has a prime location along its much-touted 21st Century Maritime Silk Road linking the Middle East to Asia (see WiC253).

Ceylon Today reports that a Chinese firm has a 35-year lease on four out of seven of the container berths at Hambantota. Another company has a similar lease over the China Merchants-funded South Container Terminal in Colombo – and allowed one of China’s nuclear submarines to dock there just before Christmas, prompting protests from India.

Sirisena says foreign investment will now be scrutinised differently. “The land the white man took by military strength is now being obtained by foreigners for ransoms to a handful of people,” he said in his manifesto. He is also concerned about the debt Sri Lanka has incurred to pay for Chinese-funded infrastructure projects. “Generations of our children and grandchildren will not be able to completely finish paying,” he argues. “If this trend continues, our country will again become a colony and we will be slaves.”

Indian newspapers have reacted with glee to Rajapaksa’s ousting at the ballot box. Many believed he overplayed the China card to deter Indian efforts to lobby for Sri Lanka’s Tamil population, and the Business Standard suggests that weakened Chinese influence means India can now displace China as “Sri Lanka’s primary ally”. But Sri Lanka needs more investment in infrastructure, which isn’t one of India’s strongest suits, and one of China’s more obvious strengths. Sirisena is promising clean and competitive bidding for all future infrastructure projects. The Sri Lankan FT hopes it will not just be a case of “new asses; old liquor.”  

Week in China
16 January 2015
What do you say to a leader whose policies are responsible for the death of several of your citizens?

In the case of China and North Korea the answer seems to be “Happy Birthday”.

On January 8 Beijing dutifully sent its congratulations on Kim Jong-un’s turning 32. It came 12 days after a North Korean defector had crossed the border and killed four Chinese farmers while searching for food and money. The Chinese authorities tried to cover it up, presumably fearful that it would harm relations with a volatile Pyongyang.

But when Chinese citizens found out – via the South Korean media – they were furious. Worse still it transpired this was not an isolated case – three others were killed in September and villagers along the border live in constant fear of armed North Korean deserters.

“Why are things involving North Korea more sensitive?” asked the Global Times. “We should not be too accommodating,” it warned.

Sino-DPRK relations have deteriorated since the young Kim took over in late 2011. The last senior Chinese official to visit Pyongyang was vice-president Li Yuanchao in mid-2013, and Kim and Xi Jinping have never met as leaders.

This might not be so serious were China not North Korea’s only formal ally and biggest aid donor. To this day North Korea is a rare foreign nation the People’s Liberation Army has spilled blood protecting and the only country with which it has signed a mutual defence pact. Yet, this week it emerged that it is Moscow, not Beijing, that Kim will probably visit on his first foreign trip as leader.

The chubby dictator’s lack of respect infuriates many Chinese. Why, they ask, does their government apply double standards? If nationals from other countries behaved so atrociously, Beijing would protest vigorously.

“We go on and on about how bad Japan is but it’s not Japanese who are killing Chinese citizens today,” one confused weibo user queried.

The most recent attack happened on December 27. A 26 year-old soldier crossed the Tumen River – which forms the border at that point – and entered the village of Nanping carrying a knife and pistol. Quite why he needed to kill the two elderly couples he robbed of pork and Rmb100 ($)16 is unclear, but the soldier was caught and shot when another villager alerted the police.

The North Korean raider later died of his injuries, the foreign ministry said in the only official acknowledgement of the incident.

“The North Korean side expressed regret over the incident and extended sympathies to the families of the victims,” it added.

But as reports by Southern Weekend show, it was far from a one-off incident. Only four months earlier a North Korean civilian bludgeoned a Chinese family to death to get two mobile phones, a handbag and Rmb500. A relative of the family surnamed Yong told the Beijing Times that people in his village feel helpless because the Tumen River is shallow and freezes over in the winter, making it easy for anyone to cross. “They often come over, asking for money and food. They have weapons, so we dare not refuse,” he said.

Southern Weekend says there have been at least 10 such cases since 2000, and not all of them involve desperate defectors. Organised gangs that are smuggling drugs, alcohol, cigarettes and Chinese phone cards also raid the villages, it said.

Local authorities have given out 4,000 mobile phones for people to call in incidents but residents have had enough and they are either fortifying their properties or moving to the city. “If they have the means, people are leaving. Only the poor and elderly are left now,” Southern Weekend comments. It also speculated that Chinese border guards may have been killed trying to stop the incursions. But the chances of that being confirmed publicly seem very slim indeed.
The Economic Information Daily started the year with the sort of statistic that gets international executives salivating. It described an industry in which a foreign player controls around 95% of the Chinese market, and which in the coming year may generate local sales of close to 2 billion units.

WiC was stunned by these figures, particularly as the multinational in question is not one that we have mentioned previously in our six-year publishing history.

It turns out the company is a Dutch firm called NXP Semiconductors, which was originally part of Philips but has been a separately listed Nasdaq firm since 2010.

NXP has a broad array of products, but the one in which Economic Information Daily claims it is most dominant in China is the smart chips now being embedded in credit cards and bank debit cards.

China has around 3.4 billion cards in circulation, and the majority still use magnetic strips. In early 2011 the central bank ordered the country’s financial institutions to migrate their card bases away from this older technology to cards using chips. Under the plan, cards are supposed to be chip-based by the end of this year, with all of the current cards relying on magnetic strips to be suspended.

Why? Security, in a word. Magnetic strip credit cards are prone to counterfeiting and fraud. So China’s central bankers have looked to Europe where the switch to ‘chip cards’ is most advanced. In France – where a nationwide migration was first completed – the rate of bank card fraud fell from 2.7% to 0.18% of transactions.

But Europe’s headstart has also ensured that some of its firms are enjoying a notable advantage in smart chip production. Aside from NXP, Germany’s Infineon is also selling its chips to card issuers in China, for instance. European producers enjoy economies of scale and technical advantages. Another factor for their success in the Chinese market is an international certification process that validates their product.

In the first three quarters of last year banks in China purchased 130 million, 150 million and 170 million smart chips respectively – a trend which the Economic Information Daily says “shows a significant acceleration of issuance”. It also reckons there are now one billion new cards being used in the country, with NXP having provided the chips for 95% of these.

The rest are provided by other multinationals (Samsung is cited as another main player). Almost totally absent: Chinese manufacturers.

A top executive with Shanghai Fudan Microelectronics Group told the newspaper that Chinese firms like his have lagged behind because of their late start in the chip design and manufacturing industry. However, as of last June, there were still six local firms producing smart chips which comply with China’s security standards. Homemade chips, for example, are already embedded in 1.2 billion Chinese ID cards, as well as featuring in almost 630 million social security cards.

However, the chips’ inclusion in Chinese bank cards is proving more elusive – somewhat to the chagrin of the central bank.
When the People’s Bank of China first pushed for the migration to smart chips it had hoped local manufacturers would be the chief beneficiaries. Instead it has found that the Chinese banks are reluctant to use homemade chips. Despite pressure from the regulator, the banking industry only began trialling them last April.

Their reluctance stems from a number of commercial factors, but the main argument again relates to international certification. The key body here is the CCRA (Common Criteria Recognition Agreement), which has been established by the main international payments systems. NXP’s bank card chips received certification from the CCRA back in 2001 but Chinese manufacturers have found it tough to receive similar accreditation. Local players say it can take them two to five years to navigate the process, while more established international players can get their newer products certified in as little as three months.

So far only one Chinese firm has got a smart chip design CCRA-certified – Shanghai Huahong Integrated Circuit. But it has failed to dent the dominance of firms like NXP. In fact, rival maker Nationz Technologies – which has also spent a lot on CCRA certification – warned the Economic Information Daily that firms like his face a vicious spiral. Sun Yingtong, its president, says the technology is advancing rapidly and even when the authentication is granted, the China version lags.

He concludes that as long as the Chinese banks insist on buying CCRA-certified chips it will mean that the foreign manufacturers’ dominance of the local market will become more entrenched.

Local experts cite a few reasons why the bank bosses are inclined to shun Chinese-designed chips (which is not the same thing as being Chinese-made; NXP employs 7,000 people in China). A staffer with UnionPay says the first-mover advantage of the established chip-makers is hard to dislodge, even when the central bank is lobbying for the homegrown players. Local banks, he says, have a “preconceived security prejudice” against chips designed by Chinese firms. And unlike the multinationals their chips have never been put into large scale use, “so their reliability has not undergone the test of large scale applications”.

This is a serious commercial concern. If there does turn out to be a problem with the chips, the banks will have to foot the bills for replacing the faulty cards and they will take a reputational hit with their client bases. Best not to be the first mover, then, in adopting Chinese chip technology (this school of thought was probably bolstered by what bankers saw in the telecoms industry when China Mobile was forced by regulators to adopt a homegrown 3G technology; it worked less well than foreign standards, and China Mobile lost market share to its two rivals).

Of course, there is something of the classic chicken-and-egg theory to all of this: until a local smart chip is mass-tested, there won’t be confidence from bank procurement departments that they are safe to buy. A bit like the old maxim ‘You never get fired for buying IBM’, the managers face little risk if they buy from the established giants. But if they buy a homegrown alternative, it might not work. Potentially worse, some may fear that they’ll be investigated and even accused of taking kickbacks from the local supplier.

Nor can China’s manufacturers – late to the field and technologically lagging – match the likes of NXP in terms of economies of scale. Thanks to its critical mass in the marketplace, local media estimates NXP can price its chips at half the levels currently envisaged by its Chinese rivals. Even selling their chips at an entry price of Rmb10 ($1.65) apiece, the Chinese firms would be looking at years of losses.

For the bank procurement departments it all looks a bit of a no-brainer (Securities Times points out that chips account for 80% of the cost of the cards). As a result Economic Information Daily thinks that
NXP will continue to provide most of the 2 billion chips that China’s banks are expected to purchase this year.

Changsha Evening News is one of the voices in the media that worries about the use of foreign technology. It would like to see banks made to use locally-designed chips in the interests of national security (a view the central bank also takes).

The newspaper writes: “From the perspective of the commercial banks, it is reasonable that they will use cheaper chips that get more certifications. The problem is that domestic banks have ignored the most crucial issue: if Chinese cards continue to use foreign chips, their security will be seriously threatened – if these foreign chips are installed with a ‘back door’ by those with ulterior motives. The consequences could be disastrous.”

It likens the situation to the world of computer operating systems, where China is reliant on foreign products to power their PCs and smartphones (i.e. those made by Microsoft, Google and Apple). This is an area where the Chinese government has made plain its desire to promote a domestic OS, particularly in the wake of Edward Snowden’s revelations. “How can we forget the lesson of this,” Changsha Evening News asks. “We can no longer let our own bank card security be held in the hands of others.” It then suggests that government action is required and that the authorities in Beijing order that banks use home-grown chips that have passed domestic security tests, even if they are not yet CCRA-certified.

The news about the chip cards has led to some soul-searching online too.

“Do not say how great China is,” one netizen complained. “That even a small bank card that we use is made in foreign countries can only show that we have a long way to go.”

Chang-go may become the first prepaid card firm to collapse

### Swipe out

**Shopping cards in trouble**

China’s Lunar New Year is due next month. It’s usually a boom time for the issuance of pre-paid cards – a settlement method that we first raised concerns about as far back as 2010 (see WiC47).

According to Shanghai Securities News, China’s pre-paid card market had grown to Rmb1.4 trillion by 2013 (second in size only to the US). The cards store monetary value and can be used in supermarkets and even department stores. They’re particularly popular around Chinese New Year, when companies like to give them as *lai see* gifts to clients and high-performing staff). Their attraction owes much to the awkward practicalities of giving monetary gifts. The Rmb100 note is the largest in circulation, so if you want to give someone a *lai see* of Rmb10,000, that’s a wad of 100 notes. Much easier to hand over a credit card sized pre-paid card, with that amount purchased and pre-loaded.

However, as CBN reports the industry got a shock late last month when the cards of Shanghai-based Chang-go stopped working. Merchants stopped accepting them and users flocked to its headquarters for refunds. According to the newspaper, Chang-go’s owner is currently “unaccounted for” and the central bank has had to step in to figure out what happened.

Chang-go issues pre-paid cards but also settles transactions involving its card base. What seems to have happened is that it began operating in the shadow lending market, lending its float of unspent credit to high-risk borrowers at high rates. When some reneged on their debts, liquidity at Chang-go collapsed and it could no longer settle its obligations to cardholders and merchants when its cards were swiped.

CBN reckons it could be the first third-party payment company to collapse.

The question then becomes: how many more of China’s 160 pre-paid card providers could have been up to similar tricks?
Back in April 2009 we wrote an article about a proposal being made by Zhou Hongyu, a member of China’s parliament, the National People’s Congress. He was not a high-profile politician in the mould of Bo Xilai, but his initiative was set to have a global impact. He called for the “strict control on the production and export of rare earths” telling local media that the current structure created “an absolute waste of resources”.

Zhou said that indiscriminate mining was leading to China selling off its rare earth resources at cheap prices, benefiting foreign industry rather than the nation. At the current pace of extraction, he warned, “China will have more or less no rare earths left in two to three decades, and we will have to spend huge amounts to import them from abroad.” He proposed that the industry be consolidated by a few large state players, and that export volumes should be reduced to 30,000 tonnes annually. Zhou predicted his policy would lead to “high profits and allow the sustainable development of China’s rare earth resources; and ensure China retains a long term grasp over rare earth pricing power.”

When we reported on Zhou’s scheme in WiC13, the subject of China’s rare earth resources – used to make everything from smartphones to F-22 fighter jets – was not high in the international media’s attention. So little known were these 17 metals, that our article actually stated: “What, you might ask, is, or are rare earths?”

It was an early example of how our monitoring of local media could alert readers to a big trend. That’s because the Chinese government pushed ahead with Zhou’s scheme and suddenly industrialists around the world found prices of rare earths rising as Beijing sought to rationalise and OPEC-ise this critical industry (recall that when Zhou made his proposal, China’s mines were turning out 180,000 tonnes of the metals a year, when global demand was just 80,000 tonnes).

Not surprisingly, rare earth production was a topic we kept a close eye on in subsequent issues. America’s military quickly saw it as a national security issue and looked to reopen the nation’s own mines in California (see WiC57). It also became part of a rancorous dispute between Beijing and Tokyo over the latter’s detention of a Chinese trawler captain. Japan accused China of restricting the export of its rare earths in retaliation – using them as a tool to undermine Japanese industry (see WiC81).

The issue of Chinese export quotas became so contentious that a case was eventually brought before the World Trade Organisation. Last August that body ruled that the export quotas were a violation of its rules, and last week China’s government seemed to acknowledge that verdict as it eliminated them. It has said this is part of a wider move to market-based pricing of commodities.

The broader question is did Zhou’s policy work? Not exactly. For one thing, it encouraged rare earths to be mined elsewhere leading to China’s share of global output falling from 93% to 86%. The Wall Street Journal also pointed out that exports were around 25,000 tonnes in the first eleven months of last year, well below the 30,000 tonnes cap.

The Hong Kong Commercial Daily comments that China still “struggles to convert its rare earth resources into a rare earth advantage”. But National Business Daily believes the government remains intent on change. The State Council last month mandated that six state-owned firms will consolidate the industry. It is not the first time it has made such a statement but if it occurs at a rapid clip this time – which will require overcoming a host of vested interests – one objective will be met. The larger, better-capitalised firm will be able to employ costlier technologies to mine in a less environmentally destructive fashion. Ironically, it has been the smaller privately-owned mines that have caused the worst of the wreckage when mining China’s rare earths.
In 2012 Dalian Wanda chairman Wang Jianlin and Jack Ma, the boss of Alibaba Group, made a famous bet of Rmb100 million ($16.13 million) on national TV about whether e-commerce would account for half of China’s retail sales by 2020.

Wang later suggested it was a publicity stunt arranged by the show’s producers. But no matter, the wager has generated a lot of buzz for the two tycoons.

A year later, a new duo decided that they wanted a piece of the action. Lei Jun, chairman of Xiaomi, and Dong Mingzhu, chairwoman of appliance giant Gree, were sharing the stage at the same event, which is hosted annually by state broadcaster CCTV. The two were trading barbs over the business models of their respective companies. Dong said Xiaomi relied on cheap prices to sell its products, while Lei singled out Gree’s customer service as a weakness. The discussion grew more heated and led Dong to challenge Lei. Would Xiaomi overtake Gree in sales within five years, she asked? If so, Dong would pay Lei Rmb1 billion. If not, he would have to pay her.

At the time the challenge looked like an easy win for Dong. In 2013, Xiaomi’s revenues were probably about Rmb30 billion, a quarter of Gree’s. But just 12 months later, the gap between the two has narrowed rapidly. Xiaomi made sales of at least Rmb70 billion last year, half of Gree’s Rmb140 billion, and Lei boasted to Beijing Times last month that he is “99.99% certain” that Xiaomi’s revenues will exceed Gree’s in 2018.

In response Dong is trying to boost sales and last week Gree announced a new strategic cooperation with Dalian Wanda (perhaps it’s no coincidence that Dong has tapped the wager-prone Wang Jianlin as a partner). The alliance means that Gree will be lead supplier of household appliances for Wanda’s residential developments. Gree, the market leader in air-conditioners, will also supply cooling systems to the developer’s mega-shopping malls.

Gree isn’t the only manufacturer making alliances with a developer. Its rival Haier has partnered with Evergrande to become lead supplier of appliances at Evergrande developments, and it hopes the partnership will extend to offer furniture and other home improvement products to Evergrande, says CBN, including the development of smart-home devices, which link up with smartphones and across household Wi-Fi networks.

Haier has already unveiled an operating system named “U+ Smart living” through which users can operate smart home appliances wirelessly. For instance, smartphone users can turn on air conditioners before they arrive home at their apartments.

Liu Buchen, an industry expert, told China Business Journal that partnerships between appliance makers and property firms have tended to concentrate on sales and distribution in the past. But the collaboration between Haier and Evergrande is different because of its ambitions for cracking the “smart-home” market.

Midea – another rival of Gree’s – is also hoping to benefit from new technologies, after receiving Rmb1.3 billion in investment from none other than Xiaomi.

“Our partnership will allow us to develop a digital ecosystem in
which Xiaomi’s devices and Midea’s home appliances can be perfectly connected,” Xiaomi’s boss Lei explained. Xiaomi also launched a new range of air purifiers in December as part of the push into home appliances connected to the internet. It says they can produce up to 406 cubic metres (14,000 cubic feet) of clean air per hour. Controlling it with an app on a Xiaomi smartphone, users can check the air quality in their homes when they are away and set filters depending on outside conditions.

The race to develop smart-home devices comes at a time in which many white goods makers are having to resort to price wars to defend their market share, with Gree kicking off a round of aggressive discounting against Haier and Midea back in October in the air-conditioner market (see WiC256).

“But price wars are a double-edged sword. While they help grow the top line, gross margins are severely affected. So the only way to improve profitability is to transition to smart-home products. The pressure to ‘go smart’ is definitely mounting,” another industry insider told China Business Journal.

In the meantime, Gree’s boss Dong is pouring scorn on Xiaomi’s tie-up with Midea, calling the two companies a “pair of thieves”.

“Putting two second-class firms together will not make a great giant. Midea is a firm whose success is built on patent infringement and false advertising, and Xiaomi’s success comes from endless marketing without any important innovation,” she warned, referencing an earlier court case in which Midea was ordered to pay Rmb2 million in damages after being found guilty of stealing Gree’s product designs.

Meanwhile only days after Xiaomi launched its new air purifier, a Japanese company was also crying foul about potential patent infringement. “It was discovered that Xiaomi’s air purifier is surprisingly similar to a product that we released in 2012,” the company’s head of product design complained on weibo. “I personally was very bewildered by this.”

Who’s Hu: Frank Wang
Profiles of China’s business leaders

Few of Hong Kong’s billionaires have made their fortunes without a major contribution from the real estate business. Stories of Silicon Valley-style whizz-kids becoming super-rich in the city are much rarer. But Frank Wang (or Wang Tao), the founder of drone maker DJI Innovation, may go on to become a notable exception.

Getting started
Wang’s isn’t a 100%-Hong Kong story. Born in 1980 in Hangzhou, he moved to Shenzhen with his family as a child. Having spent much of his youth building toy models, Wang developed an obsession with helicopter drones. He went to East China Normal University in Shanghai to study psychology but his keen interest in electrical engineering persisted. In 2003 he dropped out of that college, switching to Hong Kong’s University of Science & Technology (UST) to study how to make robots. He completed his undergraduate studies in 2006 (and a master’s degree in 2011).

Model student
Wang’s final-year project was a mini-helicopter drone. He got a poor grade but his model was well received on an internet forum for drone fans in Shenzhen. Encouraged, he launched a firm to make it called DJI in 2006 (for our first mention of the start-up, see WiC259), enlisting the help of two of his classmates.

Big break
In DJI’s early stages Wang received assistance from his alma mater UST. But he also benefited from a move to Shenzhen, which has developed into China’s tech hardware capital (see WiC254). DJI grew quickly from start-up to a leading maker of small-scale drones for civilian usage, with a workforce of 2,800. It has become the world’s largest supplier of civilian drones, and arguably the first Chinese firm to achieve global leadership in a consumer product. Its market share in ‘civilian-use small unmanned aerial systems’ is about 70%.

21CN Business Herald reported this month that DJI’s revenue topped Rmb3 billion ($480 million) last year, earning a net profit of Rmb800 million. The newspaper also said that DJI is close to completing a second round of venture capital investment, which will value it at Rmb10 billion. At that valuation, Wang may become one of the richest Chinese tycoons under 40.

Need to know
Wang is the epitomy of Hong Kong’s increasing economic integration with mainland China – and in particular for the complementarity of different parts of the Pearl River Delta region. Expect more generous compliments from both the Hong Kong and Shenzhen governments as DJI’s success grows too.
What does Ebola have in common with the Ice Bucket Challenge? First, both spread ‘vially’ and, second, the two each made the top five most Googled terms for 2014. (Robin Williams, the American actor who died in November, topped the most-searched-for list.)

The Ice Bucket Challenge, in which participants dump ice water over their heads before nominating others to do the same, is also considered the first truly global video meme (see WIC250). But the fundraising campaign wasn’t the first internet sensation of its type. Neknominate, an online craze in which people down large quantities of alcohol and then challenge others to do the same, also made headlines last year, starting out as exhibitionist nonsense but soon turning into something deadly. By February, at least five young men had died after “necking” dangerous cocktails.

Over in China a similar drinking game is also worrying the authorities. Somewhat like Neknominate, the “baijiu challenge” sees its participants down large amounts of hard liquor (which can be up to 60% proof).

The craze began late last year after a video in which a man was punished for arriving late to a party. His penalty was to bottom-up a jin (roughly half a litre) of baijiu in less than 10 seconds. The video did the rounds on Chinese social media and the unknown man was dubbed “Brother One Jin”.

But one-upmanship has long been part of China’s drinking culture. People began posting videos of themselves outdoing Brother One Jin. Soon Brother Two Jin, Three Jin and Four Jin were clamouring for national attention. The craze climaxed when a man in Henan necked the equivalent of three litres of baijiu from a huge mixing bowl (rice wines such as Moutai are usually consumed from small shot glasses). Viewers were quick to nickname him “Brother Six Jin”. But as video of his astonishing act went viral, speculation mounted that he had died after the challenge.

Brother Six Jin, surnamed Ku and...
It’s not soup, it’s beer

in his mid-thirties, was forced to film another video to deny the rumours.

“Hello I am Brother Six Jin. First I am sending this video to clarify that I am very well. Secondly I want to say you all need to be careful when drinking,” he said, before confessing that he had needed to have his stomach pumped after the baijiu challenge, and that he would now be quitting drinking altogether.

“Brother Four Jin” also admitted that he had actually knocked back four bottles of water in one of his own clips, and warned others against trying to repeat the feat with alcohol.

“For your own health, your family and social responsibility, don’t blindly follow the craze. Drink responsibly,” he beseeched.

In another case an employee of a distillery in Henan told reporters his company had hired a man to pretend to drink six bottles of baijiu as a promotional effort.

Like the Nek nominate trend in Western countries, the baijiu challenge is being met with stiff opposition by the local authorities. The Ice Bucket Challenge is about doing something stupid for charity. The baijiu challenge is simply stupid,” Henan Daily warns. Combined with China’s occasionally extreme drinking culture, it could grow into a dangerous trend, the newspaper thinks.

Binge drinking is common in some careers, the Global Times also notes. Some job adverts even demand that applicants be able to hold their alcohol, with good drinking capacity thought to be important for developing business relationships with clients. “Alcohol has always been a gateway to making connections,” the newspaper admits. “Those skilled in drinking and schmoozing can often put their ambitions on the fast track.”

But these are also practices that President Xi Jinping wants to discourage, especially at the banqueting tables frequented by Party officials. Bans on bureaucratic boozing are one of the so-called “Eight Rules” that Xi dished out in late 2012. The austerity effort calls for a curb on government spending and displays of extravagance. The directive has resulted in a slump in baijiu sales (see WiC210).

Government watchdogs are upping the ante in the fight against the dangers of alcohol abuse too. In a new TV documentary series jointly produced with state broadcaster CCTV, the Party’s top disciplinary watchdog has revealed some telling stories behind Xi’s campaign to improve officials’ behaviour.

The documentary cites the case of Fu Xiaoguang, the first official to be demoted for breaching Xi’s Eight Rules (he was censured not for corruption but improper conduct). In January 2013, Fu, then a senior official in Heilongjiang, threw a party at a scenic spot and used a local forestry administration fund to foot the bill. The gathering degenerated into a heavy boozing session, with we drams turning into high drama the following morning when the forestry administration chief was found dead in his hotel room (his drinking had led to a heart attack).

“We were under great pressure to entertain our superior officials,” one of the guests told CCTV, before acknowledging that such an event could no longer take place.

“In the past, many officials were keen to visit us... You couldn’t afford to slight them,” he told the broadcaster. “But now, such guests are few.”

Keeping track

There have been a number of legal verdicts relating to cases we wrote about last year. First off, a court in Inner Mongolia has finally found an executed teen innocent – 18 years after he was wrongly convicted of the rape and murder of a woman. We featured this case in WiC264, pointing out that some viewed it as a litmus test for President Xi Jinping’s new emphasis on promoting the rule of law. Oysiletsu, then 18, was found guilty in 1996, and his parents have been trying to have the verdict overturned in the light of another man subsequently admitting to the crime. The court apologised to the parents and gave them Rmb30,000 of “condolence” money. Separately a student from Fudan University who admitted to poisoning his roommate with thallium (see WiC193) was given the death sentence. Some netizens looked at this verdict in a somewhat tangential light – asking why student Lin Senhao got death while Gu Kailai, wife of fallen princeling Bo Xilai, got only a suspended death sentence for poisoning and murdering Neil Heywood. Finally, a court sentenced action star Jackie Chan’s son Jaycee for illegal drug possession. Last week he was given six months of jail time.
World of Weibo: Tea gone cold

Last week the science-themed reality series *Super Brain* returned to Chinese television. Broadcast on Jiangsu Satellite TV, it features contestants with remarkable abilities in mental arithmetic, photographic recall and memory (see WIC224 for a first mention). The premiere in early January generated strong ratings and 20 million views on Youku Tudou, which has the exclusive broadcasting rights online.

In the first season, Zhang Ziyi was a guest judge, although this year Fan Bingbing has provided some of the judging glamour. In one episode a student of Chinese medicine claims to be able to tell if a lady has gone under the knife by feeling her bone structure. Fan, who has long fought accusations of having plastic surgery herself, challenged the contestant to feel her face. His conclusion? Her looks are 100% genuine.

But it was the appearance of Zhang Zetian, known online as Milk Tea Girl, that earned most of the headlines. Zhang, a student of Tsinghua University, became famous after a photo showing her holding a cup of tea went viral on social media. Despite working as a guest judge on the show, she’s most in the public eye because of her rumoured break-up with Liu Qiangdong, the tycoon behind e-commerce giant JD.com. The two are believed to have begun dating last May. At the time, Liu wrote on his weibo that Zhang was “the most innocent and kind girl I have ever met” and that he wished that the two of them would “share a normal life together”. Alas, it appears that their relationship has fizzled out. Last week, Liu, 40, deleted all of his declarations of love for Zhang, who is less than half his age. She retaliated by erasing all of her own weibo posts.

“So he deleted your presence from his world; you deleted the world because of his presence,” one netizen mocked, referencing the erasing of her entire account.

Rumours about the break-up spread online and into the wider press. The Paper reckons that the couple split over a disagreement about whether Zhang should begin a career in showbiz. But there were also allegations reported by Global Times that Liu decided to act because her father had been drawn into an investigation into a high-ranking official in Nanjing. Reports then surfaced that Liu had paid Zhang about Rmb30 million ($4.84 million) in “break-up fees,” says CBN (Liu’s company JD.com has denied the claim).

Most netizens weren’t too surprised by the split: “Men seek youth and women want money. It’s simple as that. She (Zhang) merely worships him (Liu) for his money. If he was a poor student, do you think she would have fallen in love with him?” one cynic wrote.

“Women are all the same. They don’t like poor young guys and they throw themselves after big boss big spenders. Doesn’t their break-up tell you that it doesn’t work?” another netizen opined.

Others were more sympathetic: “I was optimistic about their relationship and wished they would live happily together. Who could have seen they would end up like this? It’s not easy to find a pure and simple relationship nowadays.”

China Business Times preferred to question the public’s obsession with Liu’s personal affairs: “The love life of an entrepreneur is a private affair so why does the public have such a big reaction? Is it because the media is too bored so they have to manufacture mindless gossip? What does his love affair have to do with the operations of the company? And why does it have anything to do with the public?”

The danger of being linked to someone under investigation for corruption has become a very real risk for businesspeople in China. For instance, sportswear retailer Anta saw its shares in Hong Kong plunge 16% in December after rumours circulated that its chairman Ding Shizhong was a close associate of a government official in a corruption case.

Still, Wuhan Evening News says Liu’s relationship with Zhang looked like a publicity stunt from the very beginning (they started dating right before JD.com’s IPO took place on Nasdaq in May). So perhaps the break-up was deliberately timed too, as a way of drumming up interest for Zhang’s appearance on *Super Brain*?
In the headlines
Shanghai auto show to ban racy models

Since 1964, the Italian tyre company Pirelli has commissioned photographers to create a very expensive promotional calendar. It typically involves some of the world’s most beautiful women jetting to an exotic backdrop to be photographed (usually nude), by an elite fashion photographer. This year is no different. The calendar, shot by Steven Miesel, features coveted models like Joan Smalls, Karen Elson and newcomer Gigi Hadid.

The auto industry has also been a boon for models in China – at least till this year. That’s because one of China’s premier car exhibitions looks to have banned auto firms from draping scantily-clad women over their cars.

Victor Yang, spokesman for Geely Automobile, told Xinhua that the company has received verbal notice from the Shanghai auto show’s organiser that no models can be used at the week-long event, which begins on April 20. An official of the Shanghai car show says the ban is still “under discussion” and not yet confirmed.

If true, the move is another sign of prudishness. Just last week, WiC reported that the latest TV hit drama, The Empress of China, offended censors because the actresses on the show revealed too much cleavage.

Placing beautiful women next to flashy cars has long been a marketing gimmick at China’s auto shows. In fact, Wuhan Evening News says many attractive women shun beauty pageants to become ‘car models’ instead. The more alluring ones can be paid Rmb10,000 ($1,650) for an appearance.

But in the race to grab attention that’s led to a ‘less is more’ approach in the costume stakes.

“Hiring models is a tradition, a method of promotion,” one netizen wrote. “We should have them as long as they don’t grab the public’s attention in an erotic way.”

“People who go to car shows don’t just look at the cars but also to see the beautiful models. If the show doesn’t allow car models, of course it is not going to attract people to go to watch,” says IT Home, a portal.

But is doing away with models such a bad thing? While the news triggered criticism online (most likely from male netizens), Yang from Geely says it will be a positive move for car-makers because the models often distract attention away from the cars. “An auto show is an industry event to showcase cars, not beautiful models,” says Yang.

Southern Metropolis Daily says the appearance of racier models leads to crowds gathering around the cars. But when the ladies leave, the attendees soon disperse. Some carmaker have even wondered whether the strategy has backfired. “All the money spent on the car is useless,” one company executive lamented to the newspaper.

Meanwhile, some car fanatics have applauded the move: “Finally we can admire details of the cars without the models draping all over them. Moreover, we can now take pictures of the cars without people thinking we are perverts taking indecent photos of the models,” one netizen wrote.

Fixed assets

“We think the period of high growth in real estate has come to an end. We need to transform”

.Statement made by Wanda tycoon Wang Jianlin at the recent opening of his new $1.1 billion theme park in Wuhan. It features a lavish acrobat-laden attraction named the Han Show, which was created by Franco Dragone of Cirque du Soleil fame.
Mechanic Zhou Zefu works on a giant steel sculpture of Guan Yu, the traditional god of war, using recycled car parts.