Shifting priorities?

Obama administration vexed at the UK’s decision to join China’s Asian infrastructure bank. Is it Beijing’s ‘Bretton Woods moment’?
The lender of last retort

UK’s decision to join China’s infrastructure bank is a major coup

One of the biggest battles of the Second World War was fought behind closed doors in Bretton Woods in rural New Hampshire in July 1944.

As the Allies made their final push to liberate Europe from Nazi Germany, 730 representatives from 44 countries gathered to write the rulebook for the post-war global economy.

There were two key issues: how to establish a stable exchange rate system, and how to pay for the rebuilding of Europe. Two rule-setting policy banks were created as a result. The International Monetary Fund (IMF) was set up to provide short-term help for countries whose currencies were struggling. The World Bank, meanwhile, would make longer-term loans for post-war reconstruction and development.

At Bretton Woods the Americans won the day, not least because they contributed the most money to both institutions, therefore enjoying the biggest say over policy decisions.

One result: the US dollar accelerated its ascent to the prime position in the international financial system.

Combined with the Marshall Plan (devised by Washington to offer additional American funds when the World Bank proved inadequate), a global economic recovery began. Trade among developed countries rose rapidly throughout the 1950s and 1960s, as did living standards.

The legacy of the 1944 deliberations was so important that in the wake of the 2008 financial crisis, both Bill Clinton and Tony Blair called for a “new Bretton Woods” to reform the world’s financial architecture.

And has it just emerged, this time courtesy of a new rising power: China. When Beijing offered assistance during Russia’s currency crisis last year, some saw it as usurping the IMF’s traditional role. And this month, the Asia Infrastructure Investment Bank (AIIB), China’s answer to the World Bank, has been embraced by a number of America’s long-time allies, despite Washington’s objections.

Commentators are asking: has China’s Bretton Woods moment arrived?

What is the AIIB?

Chinese President Xi Jinping first raised the idea of a new infrastructure financier back in October 2013 at the APEC annual summit. That meeting, of course, was best remembered for Barack Obama’s no-show. Today, the American president may regret that decision.

At the APEC meeting a year later China and 20 other Asian countries signed a memorandum of
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understanding in respect to the AIIB. With participants also agreeing to encourage private investment in infrastructure to spur growth, the new policy bank was mandated to offer financing for badly-needed transportation, telecommunications and energy projects in the region.

“If you want to get rich, you have to build roads first,” Xi told delegates after the signing ceremony last year, citing a Chinese proverb.

If all goes to schedule, the founding members will ratify the AIIB’s articles of agreement by the end of this year, and the lender will formally open shop in 2016.

The AIIB is to have initial capital of $50 billion, which may increase to $100 billion. Most of the funding is set to come from China. That being so, it is likely to be the biggest shareholder in the bank, which will be based in Beijing and chaired by Jin Liqun, a former vice finance minister.

Chinese officials including Xi have stressed all along that the AIIB welcomes all countries that want to participate, claiming it will complement the existing multilateral development agencies, rather than rival or replace them.

However, many observers argue that the AIIB is designed to counter the clout of the Washington-backed World Bank, and even the IMF, in a number of its functions.

That said, the AIIB is likely a more immediate threat to the Asian Development Bank (ADB). The Japanese-led ADB has estimated Asia would require $750 billion each year through 2020 for infrastructure spending, but only lent $7.5 billion in 2012.

In the meantime China has been on a bank-creating spree, also taking the lead in forming the BRICS Bank, as well as the Shanghai Cooperation Organisation Development Bank.

The man in charge: Jin Liqun

“There is plenty of evidence that Western governments and Japan have used the multilateral development banks that they control in exchange for favours in the international arena (such as votes in the United Nations) or to influence the domestic politics of poorer countries,” a Washington Post op-ed notes. “Banks in which China experts more influence will surely behave in similar ways.”

Who is in and who is not?

Developing countries in Asia – including India and all ASEAN states – made up most of the 21 earliest joiners. Developed economies in the region – namely America’s Pacific allies in Japan, South Korea and Australia – have been sitting on the fence. (Though Korea came off it this Thursday, by announcing it will join the AIIB too.)

The main reason for their indecision, understandably, has been Washington’s stance on the AIIB. Criticising it as a deliberate effort to undermine the World Bank and the ADB, the Americans have warned that the post-war international financial order is at stake.

A recurring line from Washington (and thereafter from Tokyo) has been that the AIIB will fail to meet the “high standards” – especially on governance, environmental protection and social safeguards – adopted by the Bretton Woods policy institutions and the ADB. As the New York Times has outlined, Washington’s view is that the AIIB is merely “a political tool for China to pull countries in Southeast Asia closer to its orbit, a soft-power play that promises economic benefits while polishing its image among neighbours anxious about its territorial claims”.

However, an announcement from the British, historically the closest American ally of all, seems to have changed the game entirely.

“We think that it’s in the UK’s national interest,” a Downing Street spokesman told reporters after the British government announced this month that it too wants to become a founding member of the AIIB. (British media has been speculating that, in exchange, London hopes to emerge as the West’s leading hub for the renminbi.)

Following the UK’s surprise decision, an unnamed US official took the unusual step of condemning Downing Street for breaking ranks.

“We are wary about a trend toward constant accommodation of China, which is not the best way to engage a rising power,” the source grumbled to the Financial Times.

But after that France, Germany and Italy also confirmed they’ll join the new bank too. The news prompted a bit of gloating from Xinhua: “The brave yet rational move has laid bare the attractiveness and influence of the AIIB, given the difficulty for those leading EU members to reach a consensus over issues related to China inside their union, where they often kick the can down the road.”

“Washington, what are you waiting for?” the newspaper added.

At least 37 countries now appear ready to join the AIIB.
Why the sudden rush?
The European requests to join the AIIB seems to have come as a shock. For Asia’s developing countries, the decision is less surprising. There is a school of thought in the region that an Asian answer to the World Bank and IMF has been needed for a while. Much of this has to do with the region’s mistrust of the American-led development banks, a feeling that festered most during the Asian financial crisis. In South Korea, for example, the currency market turmoil of 1997 and 1998 is known locally as the “IMF crisis”. In exchange for its $57 billion bailout the IMF demanded harsh austerity that many Koreans viewed as humiliating (citizens famously lined up to donate their wedding rings to speed repayment of the IMF’s loans).

Other recipients of IMF funding such as Thailand have also complained about lending conditions that were forced upon them. The bitter prescriptions included the opening of key economic sectors, a move sometimes seen as benefiting firms from the developed world.

Beijing has promised a lighter touch in helping troubled nations and the Wall Street Journal reported this week that China has even offered to forgo veto power at the bank. The offer may have been the critical factor in coaxing European countries to join, while somethin more countries join. Foreign Ministry seemed to be deliberately muddying the issue this week when she told reporters that there is “no such proposition that China is seeking or giving up” its veto right.

“With the increasing number of countries joining the bank, the share for each member will drop down naturally,” she also said, presumably wanting to make the point that China’s influence will be diluted as more countries join. Still, this would be a sharp departure from the long-standing practice at the IMF. There, as the Journal notes, the US has “a lock on some big decisions” despite holding less than 20% of the voting shares.

According to the Hong Kong Economic Journal, the AIIB is a win-win outcome for Asian countries and for China, which has been searching for a more prominent economic role internationally. This aspiration has often been held back by existing institutions. (A 2010 attempt to raise China’s IMF voting share from 3.8% to 6% has not passed the US Congress.)

Martin Wolf, writing in the Financial Times, has warned that it is folly to rebuff the AIIB completely, especially as the resources of the World Bank and the ADB are grossly deficient. “It would be good if the AIIB were as pure as the driven snow. But this is a fallen world. At the least, it would be better with a broad membership than without it,” Wolf says.

Stuart Gulliver, chief executive of HSBC, made a similar point in a speech in Hong Kong this week. “What is increasingly clear is that while some institutions have been slow to accommodate China’s status as the world’s second biggest economy, the rest of the world is getting on with the process of establishing closer financial and political links with China through its currency and institutions,” he said.

“It is notable that the applications of the British, German, French and Italian governments to join the Asian Infrastructure Investment Bank are a striking acceptance of the principle that you improve institutions through participating in them, not by isolating them. This is a highly positive step for China’s global integration.”

Is China marshalling a bigger plan?
When Chinese media covered the APEC summit last year, it wasn’t the AIIB that grabbed the headlines. Instead it was Xi Jinping’s “one belt, one road” blueprint (see WiC260).

Essentially this is a concept that envisages a network of highways, railways, ports and other infrastructural projects that link China
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to central and south Asia, as well as further afield to the Middle East and Europe. The establishment of the AIIB (as well as a further $40 billion Silk Road fund) is viewed as a means to finance these plans.

These multibillion projects will also offer an outlet for a more efficient usage of the country’s $4 trillion foreign exchange reserves, as well as promoting wider circulation of the Chinese currency overseas.

Together, the proposals have been described as “China’s Marshall Plan”, although Beijing policymakers have avoided the term (the Marshall Plan was originally designed to thwart Communism, after all).

Instead, there has been some rekindling of a 1904 theory from British political geographer Sir Halford Mackinder about how to ‘control the heartland of the World Island’, by which Mackinder meant the landmass of Europe-Asia-Africa.

More than a century ago Mackinder suggested that the rise of technology such as railways would allow the control of this heartland by a single superpower. “Surely Mackinder couldn’t have envisioned the high-speed train 100 years later?” the Economic Daily has noted. “The World Island finally won’t be a pure theory but a possible reality in the 21st century... It is the political economy of the ‘one belt, one road’ concept.”

Even if the AIIB isn’t really part of a sinister masterplan, Taiwan’s United Daily News says that the new bank is emerging as a “significant geopolitical event” by rattling the longstanding trans-Atlantic alliance between Europe and the US.

“China may not become the ultimate ruler of the World Island,” the newspaper suggests. “But it is possible to create a new divide between the World Island and the American Island.” Others played down the impact of the last few days, including Xinhua, which noted that the US has “seemingly outgrown its childish paranoia against the AIIB”.

But the news agency couldn’t resist a dig at Washington, calling for vigilance against any “Machiavellian ploy” to convert the fledgling bank into “yet another tool for exerting its influence and getting its own way”.

Still, for the proud patriots on the Tiexue forum (which is an online discussion group for those keen on military affairs and whose name means ‘iron blood’) these are chest-puffing times.

Many contributors were soon linking the bank directly with Chinese ambitions to counter American power, evoking strategic thinking that sounded similar to some of Mackinder’s geopolitical ideas.

“The first project I want the AIIB to finance is the Kra canal,” one insisted, referring to the proposed waterway through Thailand’s Kra Isthmus (see WiC242). Nationalist types want the waterway because a new canal would make it more difficult for a foreign navy to choke off China’s oil imports through the Straits of Malacca by providing an alternative route.

Others concentrated on the AIIB as a form of monetary diplomacy. “Alongside the ‘one belt, one road’ blueprint, China is offering two enormous seams of gold to Washington’s former allies in the Pacific,” one celebrated. ■

Not loving it

Salon magazine asked this month whether McDonald’s has developed a “self-hating complex” in China. The reason for its question was the local translation of its slogan – “I’m lovin’ it”.

The Chinese version is Wo jiu xihuan which, as Salon points out, can have pretty negative connotations because the second character in the phrase is used to contradict something emphatically. “The natural implication is that the speaker is responding to someone who has just insulted McDonald’s food,” writes Salon. “While there is no perfect translation for the phrase, it has the same essential spirit as ‘I like it no matter what you say!’”

Hence you might use the phrase in a defensive retort when someone asks: “Why do you eat that garbage?” Salon went to the experts to confirm its analysis and Professor Liu Lening, head of Columbia University’s Chinese language programme, said the publication’s interpretation was correct. He advised that a better translation of ‘I’m lovin’ it’ would have been Wo hen xihua and also suggested Wo hao xihuan, which means “I really like it”.

Salonwww.benitaepstein.com
China’s anti-corruption drive has spread to Fujian province, Xi Jinping’s former power base. This week Xinhua reported the deputy governor of the province Xu Gang, 56, was suspected of “seriously violating discipline and law”, a standard euphemism for corruption. Xu is the first official from Fujian to become ensnared in the campaign, which has been running for the past two years. Meanwhile, it was also reported that China has given the US a list of all the corrupt officials that are believed to have fled there, with the hope of repatriating them.

Xinhua also reported that China has approved plans to set up three more free trade zones. The three – in the provinces of Guangdong and Fujian and the municipality of Tianjin – will join their counterpart in Shanghai, which was opened to much fanfare in 2013. The move signifies that more liberalisation lies ahead for China’s financial sector as the country gradually eases its foreign exchange control regime.

State-owned conglomerate Citic posted a 17.8% drop in net profit for 2014 to $5.1 billion. Performance was weighed down by the $2.5 billion write-off in value of Sino Iron, a unit that operates Citic’s disastrous iron ore venture in Australia. Sino Iron fell four years behind schedule and only began exporting in late 2013. It has also mired Citic in disputes with Chinese construction firm MCC, as well as landlord Australian billionaire Clive Palmer. The write-off was bigger than the $1.8 billion Citic warned of in January.

Hon Hai Precision Industry (the parent company of Foxconn) announced this week that it has partnered with internet giant Tencent and luxury car dealer China Harmony Auto to develop electric vehicles, marking the latest tech foray into new energy cars. Hon Hai said the three would form a working team drawing on its own manufacturing capabilities, Tencent’s internet platform and China Harmony Auto’s dealership network, to explore commercial possibilities in electric vehicles. Already, Hon Hai makes the touch screens that go into Tesla vehicles.

Agricultural Bank, China’s third-largest lender by assets, reported its slowest annual profit growth since its listing in 2010. The state lender said that its 2014 net profit rose only 8% to Rmb179.5 billion ($28.9 billion) in 2013 as the economy started to face more headwinds in the second half of last year. The bank said its non-performing loans climbed 42% to Rmb125 billion at the end of 2014 compared with a year ago. Its bad loan ratio climbed to 1.54% from 1.22% during the period.

Privately-held drinks firm Bacardi announced the launch of Tang, a China-inspired, light-green alcohol made from green tea leaves. The drink, which retails for Rmb1,600 ($260) for a 500ml bottle, will be on sale from May. The Bermuda-based company told the Wall Street Journal that the strategy is to win a spot on dinner tables, where the Chinese consume most of their alcohol, unlike their Western counterparts, who do most of their drinking in bars.
Econom y

Talk about betting on red. Macau – the world’s largest gambling hub – has suffered nine straight months of revenue declines, culminating in a worst-ever 49% year-on-year fall in February.

That sounds like awful news for a territory that saw its economy shrink by an alarming 17.2% year-on-year in the final quarter of 2014.

Casino share prices have already halved since last year, although they rose slightly on news of February’s record red ink because analysts expected even more of a bloodbath.

WiC has covered the sources of the slowdown previously, including tighter visa restrictions, bans on smoking and clampdowns on the illicit usage of Chinese credit cards.

But even more seriously, business from higher-roller players has been battered by the weaker economic mood in China, as well as the unexpectedly persistent attentions of Xi Jinping’s anti-graft campaign.

Many of the junkets that facilitate business with the VIP gamblers have shut up shop, and the casinos are trying to canvas customers directly rather than through the middlemen.

In the past Macau was often described as a supply-driven market, says Charlene Liu, an analyst at HSBC. Each time a new casino opened, it was deluged with willing players. Revenues surged, growing the total market and supercharging the local economy.

Now with six new properties set to debut on the Cotai Strip, the heart of gambling activity in the former Portuguese enclave, the hope is that Macau will get another much-needed boost.

The openings kick-off in May with the $2.5 billion extension to the Galaxy Macau and that same group’s The Broadway (modelled on the US theatre district); they conclude with the $3.8 billion Lisboa Palace in late 2017. In total, some 3,300 new tables and 12,000 hotel rooms will be added during the three-year upgrade.

But does this ‘build it and they will come’ mantra still hold true, especially as Liu and her colleagues at HSBC have forecast another 21% decline in gaming revenue this year?

Liu says 7% revenue growth will be required every year for the new properties to break even, based on last year’s performance.

Macau should be able to grow revenues at this rate, she thinks. But she is more doubtful about meaningful increases beyond break-even, and she sounds cautious about betting the house on a more positive outcome.

“The risk-reward dynamic remains unattractive to us, and we wait for either better visibility on revenue trends (such as, when we have more confidence in the potential pick-up in revenue growth) or lower valuations to get into the Macau operators to justify the potential downside risks,” Liu explains.

One possibility is that most of the new casinos will fill up with mass-market customers, or visitors who bet less at the tables. New arrivals from the ‘premium’ mass segment – players at higher-limit tables, sometimes known as ‘tuhao’ gamblers because of their willingness to flash the cash – may be less forthcoming.

Ditto for business from the VIP sector, the highest-spending customers.

Despite this, Francis Lui, deputy chairman at Galaxy, has professed his confidence about the prospects of his two new venues.

“We are optimistic that the new facilities will make revenue grow. They will stimulate our revenues and the market again,” he insisted.

This outlook was based on demand from China’s emerging middle class, Lui explained.

“Previously, it was estimated that in 2020 the Chinese middle class would be 400 million people. Now, predictions are that it will be around 700 million people in 2020. We are very confident because we have a very secure client base,” he said.

Against this bullishness, the Apple Daily reports on another statistic that reveals how much gambling demand has dried up: some of the baccarat terminals at the existing Galaxy casino have reduced their minimum bets to HK$50 ($6.4), when two years ago the amount was a far costlier HK$500.

Build it, but will they come?

How Macau plans to escape its casino crunch
Since 1964 the Italian company Pirelli has been famous for more than its tyres. In a marketing coup a lot more risqué than its rival Michelin (which began publishing restaurant guides in 1900), Pirelli pays beautiful women to pose topless for its annual calendar. This year’s edition features top models like Joan Smalls (in thigh-high boots and not much else) and Natalia Vodianova (photographed in a bubble bath).

The Chinese can be a bit more prudish, so the future of the calendar – sent to Pirelli clients and VIPs – may be in question if a takeover agreement with China National Chemical Corp (ChemChina) goes ahead.

The €7.1 billion ($7.8 billion) deal (excluding €1 billion in debt) marks the largest investment by a Chinese firm in Italy to date, but it is by no means the only one. The country is one of China’s most favoured European investment destinations (see WiC262), and its attraction is only set to grow if the euro continues to weaken.

The deal will see ChemChina’s tyre making unit, China National Tyre and Rubber (CNTR) pay €1.8 billion to get a 26.2% stake in Pirelli currently owned by investment vehicle Camfin. Russian oil company Rosneft owns 50% of Camfin, with the remainder controlled by Pirelli chairman and CEO Marco Tronchetti Provera, plus Italian banks Intesa Sanpaolo and UniCredit.

Camfin shareholders will invest the sale proceeds into a new holding vehicle jointly controlled by CNTR, which will then make a mandatory offer for the remaining Pirelli shares. Both portions of the deal are being struck at €15 per share, a notch below the stock’s pre-deal price of €15.23.

Since January 6, Pirelli’s share price has risen 44.7% and at €15 per share, the deal is valued at 17.9 times 2015 earnings, above competitors such as Michelin on 12 times.

Should all the shares be tendered, CNTR will end up owning 65%. Pirelli will then be delisted from the Milan Stock Exchange 93 years after it made its debut there (the company was founded by Milanese businessman Giovanni Battista Pirelli in 1872 just two years after the country’s unification). However, Tronchetti Provera has not ruled out a relisting, potentially of the group’s higher margin premium tyre business.

In an interview with Italy’s Corriere della Sera, he hits back at critics angry that the country stands to ‘lose’ one of its prized industrial assets.

“Some of the outdated knee jerk reactions worry me,” he told the newspaper. “Our response cannot be a nationalistic approach dressed up as industrial policy.”

Tronchetti Provera is adamant that Pirelli’s head and heart will remain in Italy and argues that this has been secured by a clause requiring 90% shareholder approval before Pirelli’s domicile can be changed.

He adds that he has been in discussions with ChemChina CEO Ren Jianxin for three years, but only finally chose the group after flirting with South Korea’s Hankook Tyre and Japan’s Yokohama Rubber.

China’s Global Entrepreneur points out how successful ChemChina has been at making its previous acquisitions work, typically spending much time and effort on cultural integration once its deals have been completed. In this case, Tronchetti Provera will remain on board as CEO at Pirelli, with CNTR picking a new chairman.

The combination of Pirelli, the world’s fifth biggest tyre maker and CNTR, one of China’s three largest, will create a world leader. Pirelli already derives roughly 80% of its industrial tyre sales (i.e. for trucks) from emerging markets, particularly South America. It has also invested heavily in China where it has a factory in Yanzhou.

Together the two hope to expand their emerging market footprint. Pirelli can also help CNTR move up the value chain into high performance tyres, an area in which the Italian firm has long been a pioneer.

For ChemChina’s Ren, the deal is likely to further cement his reputation as the M&A king of China’s chemical sector. Having started out producing cleaning liquids for tea urns in Gansu province, it will be interesting to see how Ren adapts to la dolce vita should he gain fuller control of the iconic Italian brand.
Sales Chanel

Shoppers flood Chanel’s shops after it slashes prices in China

Chanel is well-known for never holding sales. One theory has it that the luxury fashion brand would rather burn out-of-season stock than sell it at a discount, although the privately-held firm has never explained how it handles unsold inventory.

So imagine the surprise when the fashion house announced that it is cutting prices in Asia. Why? A weakening euro has widened the gap between the prices of items sold in China and Europe to an all-time high, with some luxury goods costing as much as 70% more in China.

Prior to the move, Chanel had raised prices by 15% over the past five years, says Beijing Youth Daily. But it now says it will lower the Chinese prices of certain products by as much as 27%, a move that quickly prompted queues of shoppers at its stores across mainland China and in Hong Kong and Macau.

“You can’t even imagine when I walked by the Chanel store at Hang Lung’s Plaza 66 [in Shanghai]. The line was so long I thought I was in the middle of a wet market,” one shopper told National Business Daily.

Andy Gao, store supervisor of the Chanel boutique in the Peninsula Hotel in Beijing, told the South China Morning Post that his supply of the brand’s most popular mid-sized handbag (called the 2.55) had gone by last Thursday morning. He had never seen anything like it in his three years at the store.

In addition to the price adjustment, Chanel says it will start standardising prices on three of its best-known handbags. “This decision will enable us to offer our products to all our clients at a harmonised price wherever they are in the world,” it announced.

The firm said the strategy, which includes a 20% price increase on its bags in Europe, will also help it to combat “parallel resell markets that are facilitated by price differences and hurt the business”.

Prior to the price adjustment, a Chanel Boy bag – one of its most classic designs – cost Rmb35,600 ($5,740) in China. After the change, the same bag costs Rmb26,000. Meanwhile, the bag purchased in Europe will now cost Rmb24,600 due to a price increase. So all in all, the price gap between China and Europe has narrowed significantly.

One reason that Chanel and other luxury companies got away with charging more in China than elsewhere was because of the gift-giving culture. “In China, there is a belief that the more expensive the gift, the more sincere you are. So luxury goods sales have thrived under this logic. Moreover, since most end users of the luxury products don’t actually pay for the goods themselves their price sensitivity is very low. For some of them, buying luxury goods is like buying pork in the supermarket,” comments Beijing Youth Daily.

But with China’s anti-corruption campaign showing no sign of slowing down, luxury firms must now think of new ways to resuscitate their sales. “Last year over 76% of Chinese people bought luxury goods overseas, so most luxury stores in China suffered from poor sales, serving mainly as a display room. But as the economic conditions in China continue to worsen, it forces luxury brands to rethink their pricing systems. The rapid development of e-commerce has also made price comparisons much easier so luxury brands realise they can’t get away with it anymore,” says Ji Wenhong, chief executive of Xiu.com, an e-commerce site that focuses on luxury goods.

Industry observers say they expect more luxury brands to follow Chanel. “In fact, a lot of big brands in Beijing and Shanghai have been...
covertly offering discounts,” Zhou Ting from Fortune Character told Southern Metropolis Daily. “Even Hermès recently conducted a private sale at 50% off. It’s just that Chanel is more public about its discounts.”

Show of force

CCTV attacks China Mobile

In 1962 China’s economy was still deep in the throes of Communism. It was an era when the concept of the ‘consumer’ barely existed for Mao Zedong and his revolutionaries. But that same year American president John F Kennedy made a landmark speech to the US Congress in which he outlined the basic concept of consumer rights. The date was March 15, and to this day, its anniversary is commemorated as International Consumer Rights Day. Whilst its significance can be lost among the myriad of other ‘international days’, for the last 25 years it has been observed punctiliously in China, and especially so by state broadcaster CCTV which airs a programme called the 3.15 Gala.

The live show is hosted on the evening of March 15 (the 3.15 denotes the date, using the American custom of putting the month first). It targets companies deemed to have breached China’s consumer rights. Offences can range from the relatively benign to the seriously life-threatening. Recent years have seen China’s Shineway Group found at fault for distributing contaminated meat, whilst Apple has been outed for a substandard repair service.

Shanghai Financial News says that as the 3.15 Gala approaches each year, foreign companies get edgy, because they expect to be singled out, particularly if they are a threat to domestic rivals.

It can be an excruciating experience. Companies ensnared by the Gala’s “hidden camera” techniques have been known to lose profits as well as face. The official apology from Apple CEO, Tim Cook, following the 2013 Gala is remembered as one of the rare instances where the boss of the Cupertino-based firm has publicly said sorry.

In 2013, Volkswagen was forced to recall thousands of cars after the Gala revealed a fault with the model’s gearbox. And the faulty gearbox theme was back on the agenda again this year, although this time Jaguar Land Rover was the target, on allegations of problems with its Range Rover Evoque model.

Its gearbox flaw, attributed to software glitches, causes the Evoque’s engine to switch off, rather than switch gear. The timing couldn’t have been worse for the UK-based firm, which has been enjoying heightened popularity among China’s nouveau-riche, and recently opened a joint venture factory to make its cars locally (see WiC271).

The 3.15 Gala was critical of Land Rover’s tardy response to the malfunction, and its subsequent recall of at least 36,000 cars. But it wasn’t the only carmaker in the firing line. Volkswagen was swatted once again over accusations that its local dealers were misleading clients and overcharging to fix simple problems (Mercedes and Dongfeng Nissan were accused of similar practices). All three companies were quick to denounce the behaviour of the dealerships involved, with Bloomberg reporting that Japan’s Nissan had already set up working groups to investigate the problem.

But this year’s Gala also took an unexpected twist by attacking state-owned firms too. Perhaps the most arresting accusation of the evening involved China’s largest telecommunications service provider, China Mobile and its unit Tietong. An investigation by the channel showed the pair have been helping call centres to harass customers with unwanted cold calls. CCTV’s probe suggested that China Mobile’s local branches had been assisting the centres to change the numbers that show up for incoming calls, allowing the callers to disguise their identities.

China Mobile responded to the scandal on its official weibo: “The problem of false calling reported by CCTV on its March 15 programme is a serious violation of the legitimate rights and interests of consumers. China Mobile has instructed China Tietong Telecommunications, Guangdong Mobile and Shanghai Mobile to check this out carefully, and handle the matter seriously."

The inclusion of a major SOE in the show was a welcome change of script. Following graft purges at a number of the state heavyweights, it may reflect promises by Premier Li Keqiang to attack the vested interests associated with big SOEs. ★
In the last 200 years, the mountainous region of Kokang in northern Myanmar has been a vassal of the Qing Dynasty, part of the British Empire and most recently, the site of an ethnic uprising that threatens to worsen relations between Beijing and Naypyidaw.

One might be forgiven for supposing that China has enough of its own restive minorities to deal with, without getting involved in a neighbour’s dispute. However, the Kokang identify themselves as Han Chinese, speak Mandarin and even use China’s Twitter-equivalent weibo.

To make matters more complicated, on March 13 a bomb landed in a farmer’s field on the Chinese side of the border, killing five and injuring eight Chinese citizens in Yunnan province. Since then Beijing, which blamed the deaths on the Burmese military, has found itself navigating a maze of opposing loyalties and interests.

At home there is the sense that the Kokang are compatriots and therefore Beijing should help them – even if it is simply by allowing civilians to cross the border into Yunnan to flee the fighting. Certainly many of the people who live in Nansan, one of the closest Chinese towns to Kokang, feel that way. People there have raised money to buy food and blankets for the tens of thousands of refugees now sheltering in the area and officials have banned hotels from raising their prices to profiteer from the strife.

The Chinese Red Cross is also quietly running camps in several towns along the border.

These actions risk infringing the long-held Chinese policy of not interfering in other countries’ internal affairs. However, doing nothing may not be an option. Since taking the decision to institute democratic reforms in 2010, Naypyidaw has upped its anti-Chinese rhetoric and called Chinese-led projects on Burmese soil into question. To many in Myanmar the Kokang are seen as Chinese invaders. Its own social media has been awash with support for the Burmese military’s efforts to quash the Myanmar National Democratic Alliance Army – group of ethnic Chinese in Kokang that have formed an army. The Burmese have also accused local Chinese officials of helping to arm the rebels – an accusation that Beijing refutes.

Naypyidaw, it is worth noting, denies that its own aircraft dropped the bomb that killed the Chinese farmers and suggests that the Kokang group may have lobbed the ordnance across the border in an attempt to destabilise Sino-Burmese relations. Conversely, Beijing has stated that its belief the Burmese military are responsible for the deaths, warning that no further incursions into China will be permitted, and sending its own fighter jets to patrol the area. But it is not pandering to Chinese nationalists calling for greater retribution because it doesn’t want to further strain ties with the Burmese government.

“Burma is a place the United States has always wanted to win,” the military website Tiexue said shortly after the bombing. “For China, it is very important to maintain a relatively pro-Chinese government in Myanmar,” it added, citing the country’s importance to China’s energy security. There are currently two Chinese-built pipelines – one for gas, one for oil – running from Maday Island off the west coast of Myanmar up to Yunnan. China also wants to develop a deep sea port.

Despite the previous investments, the commercial prospects are now cloudy. China is still Myanmar’s biggest investor but state media reported last year that Chinese firms and individuals are reducing their exposure, sensing that their government no longer has the sway it once did.

Yet if Beijing can manage the latest fallout effectively, it paves the way for a new type of relationship with Myanmar – not one of the dominant regional power dictating terms to a satellite state, but of two sovereign nations working though their difficulties to find mutual benefit.

If the Kokang can also find a peaceful solution along the way – the ethnic group wants greater autonomy – that would be a true achievement. The worst outcome? An extended conflict similar to that which Sri Lanka experienced with the Tamil Tigers. ■

Unrest in Kokang
The long wait

China’s passengers suffer 232-year flight delay

For those who regularly fly in China it will come as no surprise that it has been named once again as the country in which passengers are most likely to suffer delays.

Passengers in China have just a 46% chance of taking off on time and face average delays of an hour when travelling on a local carrier. That’s according to the latest data from the air-travel monitoring service Flightstats.

Chinese airports accounted for the world’s 16 least punctual places to fly from, with only one non-Chinese candidate, Krasnodar in Russia, anything like as dismal.

Meanwhile China’s airlines were listed alongside Air India and Pakistan International Air for their timeliness, or lack thereof.

Nanjing Lukou International has the dubious honour of being the world’s least schedule-observant airport, coming in at position 372, while Yulin airport in Shaanxi province was the most punctual of the mainland terminuses with 80% of its flights leaving on time. (That still ranked it as the world’s 203rd least efficient airport.)

Beijing’s Capital Airport ranked 353rd with just 53% of its flights leaving on time, and Shanghai’s two international airports, were ranked 370th and 371st, with only 37% of departures on schedule.

The top four slots went to Japanese airports, with punctuality levels in the mid to low nineties.

People’s Daily wrote that the Flightstats report had “resonated” with the public. “There is strong dissatisfaction over flight delays and people demand that the aviation sector improve its punctuality rate,” the newspaper proclaimed.

Other newspapers pointed out that even if you use China’s less rigorous definition of “delayed” flights that still meant mainland passengers spent a cumulative 232 years waiting inside airports and out on the tarmac last year (a figure calculated by multiplying the number of people on the flights by the minutes that they were delayed).

None of that seems to be deterring the China Civil Aviation Authority (CAAC) from wanting more aircraft to criss-cross the country’s clogged-up airspace. It is currently working on a plan to build an airport in every one of China’s 2,800 counties. China currently has 78 general use airports (according to CAAC) and with passenger numbers now at 390 million – double what they were in 2009 – that is deemed to be insufficient. By contrast the US has around 15,000 civilian airports and airstrips.

“We lack general airports. The important thing is to speed up their construction,” the head of CAAC, Li Jiaxing said recently. He hopes his target for increased runway numbers will be incorporated into the latest Five-Year Plan, which will be approved next year.

Media reaction thus far has been positive. “It is an disputable fact that Chinese airport construction is lagging behind the growth of the domestic economy and the expansion of airlines,” the Legal Daily acknowledged. “Airport distribution is currently too concentrated, leading to the current situation of congestion and delays.”

But as readers of WiC will know, it is not just congestion levels that makes flying in China so delay-prone.

Airlines and air traffic controllers can be excessively conservative, meaning that planes don’t take off in bad weather, or if inclement conditions are forecast for the journey. That has its benefits – China’s air safety record has massively improved over the past 15 years.

But when you add the other major factor – the military’s iron control over much of the country’s airspace – you get a recipe for world-beating tardiness.

Commercial airlines complain that the corridors in which they are allowed to fly are so narrow that they simply don’t have room for manoeuvre if bad weather hits. Other times the military withdraws access – sometimes at short notice – to make space for training exercises or travelling dignitaries.

Last year in a rare act of openness the military did warn of delays. The cause: it had ordered 12 airports in central and eastern China to reduce flight numbers by 25% due to large-scale military drills.

The main beneficiary from this sad state of affairs is China’s high-speed rail network. With frustration about delayed flights very much the norm, it is no surprise that more passengers are opting to let the ‘train take the strain’ (as an old British Rail ad once put it).
Just over a decade ago, Steven Spielberg’s sci-fi film *Minority Report* predicted a future in which advertising billboards would use retinal scanners to send targeted ads to passersby.

Last week Alibaba’s Jack Ma brought that vision a step closer, making the first ever purchase on his e-commerce company’s website using facial recognition technology.

Ma was at the CeBIT trade fair in Germany and used his keynote speech to demonstrate how Alibaba’s payments service Alipay is beta-testing facial recognition software for transactions online.

The app validates mobile payments by matching a photo taken by the user at the point of purchase to a stored profile photo.

After purchasing a stamp that commemorated the 1948 Hannover Trade Fair (by taking a selfie) Ma told delegates that his purchase would be delivered to the city’s mayor as a gift.

The new service is called Smile To Pay, although the international media has dubbed it ‘pay-with-a-selfie’.

“[Using] online payments to buy things is always a big headache,” Ma told the conference. “You forget your password, you worry about security. Today we’ll show you a new technology, how in the future people will buy things online.”

Ma’s latest purchase demonstrates Alibaba’s innovative edge, but also highlights his unerring ability to generate headlines, especially when he is drumming up interest from investors.

And having settled his dispute with SAIC over sales of counterfeit goods on Alibaba websites (the government agency said the two would work together on the issue), Ma is turning his attention towards the next big fundraising, the likely IPO of Alipay’s holding company, Zhejiang Ant Small and Micro Financial Services Group, or Ant Financial.

In recent weeks, Ma has played down speculation about when and where the firm will go public, teasing that Ant is “still a baby” and that it is “too early to say who it will marry”.

However, he is in the process of securing pre-IPO investors and at the end of February, Shanghai Securities News flagged a Shanghai listing in early 2017.

There had been speculation that Ant Financial would opt for a dual listing in Hong Kong but these hopes seemed to be dashed last week after Bloomberg reported that Ant intends to adopt the same partnership structure as Alibaba, principally so that current board members led by Ma can retain control.

Hong Kong lost out on Alibaba’s listing (to New York) because it doesn’t allow different classes of shareholders. However, more recently Hong Kong’s SFC officials have been telling the Wall Street Journal that they were not averse to considering Ant’s application as long as investor rights are protected.

Either way, Ant Financial could rank as the largest IPO on an Asian stock exchange, beating the Agricultural Bank of China (it raised $10 billion in Shanghai and $12.1 billion in Hong Kong from its dual listing in
The irony of an internet-based lender with only a decade of experience trumping a traditional state-owned monolith with more than 60 years under its belt is unlikely to be lost on investors.

Alipay was controversially spun out of Alibaba in 2011, ostensibly because of foreign ownership rules governing the financial services sector. Ma ultimately controls it through YunBo Investment Consultancy and tweaked its profit-sharing agreement with Alibaba shortly before the latter’s $25 billion IPO last autumn. This agreement states that Ant Financial must have a minimum equity valuation of $25 billion when it is floated. At this point, Alibaba has the option of receiving a one-off payment equal to 33% of the listed company’s issued share capital, or it can continue receiving 37.5% of its pre-tax profits. Payments are proportionally reduced should Alibaba receive less than 33% of the shares.

There is no cap on the value of Alibaba’s potential stake, but there is a floor of $9.375 billion based on the $25 billion minimum valuation. This floor valuation was said to have been surpassed during the recent fundraising round, although Chinese newspapers were divided as to by how much.

For example, in February, Century Weekly reported that three domestic institutions were purchasing an 11% stake for Rmb17 billion to Rmb20 billion ($2.74 billion to $3.23 billion). The magazine said the Social Security Fund would get 5%, with the Postal Savings Bank and CDB Capital on 3% each. This implied an overall valuation of $24.9 billion to $29.36 billion.

A few weeks later, Shanghai Securities News suggested that the group’s financial advisor CICC was brokering the sale of a combined equity stake for $4 billion, at a valuation of just over $36.36 billion.

The Global Times has argued that the company could have attained an even higher valuation were it not for “China’s ban on foreign ownership of electronic payment providers like Alipay”.

(‘The newspaper advocated a “two-tiered system allowing foreign investors in sensitive areas, but only on condition management control remains in the hands of local Chinese.”)

And yet the valuation looks fairly punchy based on Ant Financial’s most recent earnings. According to Century Weekly, 2014 net profits amounted to Rmb2.6 billion. This means the rumoured $25 billion to $36 billion price tag is already valuing Ant Financial at 60 to 86 times last year’s earnings.

By contrast, Alibaba itself is trading at 45 times 2014 earnings. Comparables in the US such as Google and eBay trade at around 22 times, with only Amazon higher up the stratosphere (116.5 times forward earnings) because it has only recently turned profitable again.

The main problem in valuing Ant is that many of its business lines are at a very early stage of development. If it is able to make the same inroads in financial services as Alibaba has in online shopping, then profitability will increase rapidly and its valuation will boom.

Alipay – the online payment tool – currently dominates the financial mix, with future returns heavily dependent on consumption growth and the expansion of online shopping. According to iResearch, it has a dominant market share, accounting for 49.2% of online payments and 82.6% of mobile payments in the third quarter of 2014.

The second biggest contributor to current earnings is financial products distribution – the money market fund Yu’E Bao (see issues 202 and 225) and peer-to-peer (P2P) service Zhao Cai Bao. The former now has Rmb572 billion under management (a 26% market share according to Fitch), while the latter is projecting a Rmb1 trillion loan portfolio by the end of 2016.

Other earnings drivers currently contribute very little or nothing. They are: Ant Small and Micro Loans, online insurer Zhong An (a partnership with Ping An and Tencent), MYBank (one of China’s new batch of private commercial banks) and Sesame Credit (an agency that checks a consumer’s credit).

The PBOC recently chose eight companies to trial similar credit rating services and is expected to issue licences later this summer. Sesame Credit has a major advantage: an ability to mine data from Alibaba’s extensive customer histories.

The Wall Street Journal believes the Chinese government has bought into Ma’s vision given the calibre of the domestic investors which recently purchased stakes. “The message is clear,” it says. “Ant Financial has backing from Beijing.”

Just like Alibaba, Ant Financial has global ambitions.

For example, it has talked about working with eBay (some speculate that Ant could try to buy PayPal, which eBay owns). And it has signed a deal with Apple, allowing customers to download the Alipay app onto the new Apple Watch. Likewise it is in the process of investing $575 million alongside Alibaba for a 30% stake in Indian online payments service One97.

Back at home, Caijing predicts another major deal could be inked with Postal Savings Bank (which is set to list next year in Shanghai). Ant lacks branches, while PostBank is short of cutting-edge technology. So were Ant’s big data know-how and cloud computing infrastructure combined with PostBank’s extensive network of outlets it is reckoned it could create a powerful new force in the financial system. ■
Charles Perrault’s folk tale about Cinderella was written around the seventeenth century. But a Chinese legend bearing a striking resemblance to its plot seems to have appeared in the Tang Dynasty, almost a millennium earlier.

It is the story of a very bright girl named Ye Xian. Not only is she beautiful she also has a very kind heart. But her father dies so she is forced to live with her stepmother. One day when drawing water Ye catches a fish with red fins and golden eyes. She takes the fish home and places it in the pond, taking every scrap of food she can find to feed the fish. Unfortunately her stepmother snatches and kills (then eats) the fish while Ye is out running errands.

When Ye discovers her fish is gone she becomes terribly upset. A little old man (the fairy god father?) magically appears and instructs her to retrieve the fish bones, put them in a bowl in her room and it will grant any wish she wants.

One day, during the annual festival for young maidens to meet potential husbands, her stepmother and stepsister set off for the dating fair. Ye wants to go too and prays to her fish bones. Suddenly Ye finds herself clad in the most beautiful green silk robe with jade and other fine jewellery adorning her. More importantly, she is also given a pair of gold embroidered slippers.

In her new outfit, Ye rushes to join the celebrations. She is so beautiful that men and women – including her stepmother and stepsister – start wondering who she is. Worried that her identity could be compro-
mised, Ye runs back home but leaves one of her slippers. The Emperor later finds the slipper and becomes determined to find its owner... (Presumably, you can predict the ending.)

That helps explain why many Chinese are familiar with the Cinderella story – even if they didn’t grow up watching the famed Disney cartoon. And last week, Disney’s live-action film Cinderella became the biggest box office winner, taking in over Rmb200 million ($32 million) during its opening weekend.

The film, which stars Lily James in the title role and Cate Blanchett as her evil stepmother, has been well received in China. On Douban, a popular Chinese movie review site, the film was rated 7 out of 10, with many saying that the visual effects were “stunning” and that the fantasy tale, though old, was very “satisfying” to watch.

“When I was a little girl with boxes of story books, I always dreamed about what a princess looks like and how she dresses, with golden locks and rosy cheeks. So when I was watching the film and seeing Cinderella glide down the stairs with her blue dress and beautiful hair, I could feel every girl in the cinema shared the same thought: our childhood dream is saying hello to us!”

Critics say the film’s widespread appeal is part of the reason for its success. “Cinderella rekindled the audiences’ passion for classic fairy tale films. The IMAX version, in particular, really helps transport the audience into the dream-life environment and awakes every young girl’s dream for a fairy tale ending,” says Tencent Entertainment.

And while some critics in the West complain the film is “unoriginal” and “too loyal” to the Disney cartoon, Chinese viewers don’t seem too bothered by that. “The live-action version of Cinderella looks exactly the same as the one I saw when I was little. There’s no reinterpretation, no unnecessary alterations. Even though the scenes featuring the stepmother have increased in this film, it totally fits with the story,” another critic wrote on Douban.

Interestingly, while the film’s biggest fan base in the US are children – for example, the New York Times says 43% of the audience was
under the age of 16 – the demographic is dramatically different in China, where the majority of movie-goers are adults. People’s Daily, for instance, reckons that the film is more suitable for adults than for kids. Many domestic film blogs also say Cinderella is too difficult for children to follow because they will have a hard time reading subtitles, and only a few cinemas showed a version dubbed in Mandarin. “For a kid-friendly movie, you should probably bring them to watch Paddington,” one advised.

Moreover, some say Cinderella is hardly a role model for small children. Chu Tian Golden News, for instance, calls the character a “cultured but calculating social climber”. Its critique goes on: “Which daughter will tell her father to just bring her a twig from his travels? And when she tells the prince not to shoot the deer, she is using her warmth and charm to seduce him. Moreover, to retaliate against her stepmother she delivers the most hurtful line, ‘You are not my mother and you never will be.’ But when she is in front of the prince, she tells the stepmother that she forgives her. Doesn’t that just send chills down your spine?”

The new Medicis
China’s young art collectors

Three years ago at Art HK, the predecessor fair to Art Basel in Hong Kong, gallerist Ben Brown recalls a well-spoken Chinese boy walking into the booth. “He asked to see our Boettis,” said Brown, referring to the conceptual Italian artist Alighiero Boetti, famous for his colourful tapestried maps.

Minutes later the boy, who was 15 years-old, had bought an embroidery by the late Italian artist, costing in the region of $100,000. His mother transferred the payment over the internet.

This wasn’t a rich kid’s whimsical shopping spree, insists Brown. “He had done his research and he knew that it was a good time to buy a Boetti.” Sure enough, the average price of a Boetti has since increased by around 18.4%, according to Artprice, an art market information provider.

Stories of mainland Chinese millionaires amassing vast art collections are nothing new. China now has over 11,000 ultra-wealthy individuals (those with assets of $30 million and above, according to Wealth-X) while as many as 500 “market-dominating art collectors” are based there, according to art research firm Larry’s List. And collecting is gathering pace. Nearly half of Chinese collections were founded between 2001 and 2010, according to Larry’s List’s Art Collector Report 2014.

Today there are (at least) 17 museums operated by private art collectors in China. That’s small fry compared with the US (where 53% of collectors are involved in a public museum or institution). But Christoph Noe, co-founder of Larry’s List, believes it has not been in the Chinese nature to display art collections and wealth to the public. As the second generation of Chinese wealthy grows more in tune with Western culture through overseas education, this is changing. A more recent trend is for China’s millennial inheritors to use their wealth to cultivate culture and become patrons of the arts, founding public museums, galleries and incubation platforms to nurture young talent.

Take for example, David Chau, the 31-year-old co-founder of the ART021 fair in Shanghai, who is a prominent champion of the local art scene. Growing up in Shanghai, Chau was fascinated with collecting from a young age. He bought and sold coins and stamps, comics and sports memorabilia, so successfully, that by the age of 12 he had set up his own eBay business. While studying history of art at the University of British Columbia, he used his earnings to start collecting art. “I collected when there was nobody collecting, when it was cheap.” With his gains he started to invest in finance and real estate and today the baby-faced entrepre-

Chau: started out selling stamps and coins on eBay aged 12
neur has accumulated around 500 works to which he adds around 20-50 pieces a year. He now considers himself an art patron.

“With the younger artists, I don’t feel like I am collecting their work. I feel like I am supporting them and creating the work with them. I love this process even more than the art itself,” said Chau.

In 2008 Chau established the non-profit CC Foundation, which facilitates loans of his collections to international institutions, and supports artists careers with financial support and public promotion. Subversive Chinese artist Xu Chen has been a recipient of Chau’s benevolence right from the beginning, and last week held a solo exhibition in Hong Kong.

Thirty-two year-old Cambridge graduate Lu Xun is another art pioneer. With his property developer father Lu Jun, he set up the Sifang Art Museum in Nanjing in 2013. The 20,000 square-foot museum houses the contemporary art collection that Lu amassed while the project was being built (on a 115-acre plot of land purchased a decade ago).

Sifang is part of a small ‘village’ of 24 buildings including a boutique hotel and designer homes – the whole project is called the China International Practical Exhibition of Architecture (CIPEA). It involved 20 top architects including Mathias Klotz, and cost the Lu family $164 million to build.

Lu described how when they first wandered around the lush virgin land 10 years ago, he and his father had to use a GPS to navigate. "Ten years later and we are still learning about the enormous possibilities this space can bring us and the people of Nanjing," said Lu.

He added that the Sifang museum was a response to China’s rapid urbanisation and the prevalent “profit-maximising mentality”.

As he puts it: “The landscape of Chinese cities is (increasingly characterised) by repetitive architecture at minimal cost. We felt obliged to break the mould and invigorate the cultural scene of Nanjing.”

The museum itself houses works by foreign and Chinese contemporary artists such as Olafur Eliasson, Marlene Dumas, Yang Fudong and Zhou Chunya.

Meanwhile, Adrian Cheng a 35 year-old art collector who one day will inherit Hong Kong’s $63 billion conglomerate, New World Development, is enabling a steady stream of artistic talent to flourish in the Chinese city of Wuhan.

After graduating from Harvard, Cheng spent two years in Beijing during which time he realised that China’s contemporary art scene was superficial. “It was primarily a series of large art galleries built by wealthy entrepreneurs to showcase the expensive art they had bought at auction,” he says, adding there was a dearth of support for emerging young artists. So five years ago Cheng opened a not-for-profit artist’s village with studio spaces in Wuhan to incubate emerging artists. Many later attended artist-in-residence exchange programmes he organised with Paris’ prestigious Palais de Tokyo. “We want to focus on the cultural software, rather than the hardware, (building galleries) which everyone is doing in China. We want to build a cultural art ecosystem, a nest for young artists,” he said, adding that he also runs programmes to groom curators and educate the Chinese audience. So far 50 artists have graduated from the artist village, many of whom have successfully debuted at Cheng’s art galleries in Hong Kong.

So what drives these youngsters to spend money and time on furthering a cultural rebirth, instead of buying luxury goods or growing a business?

Is a genuine love of art or do they see the exercise as just a means for their families to diversify their wealth?

“These kids are confident, educated overseas, have an international background and are genuinely passionate about art,” reckons William Zhao, a Chinese collector and curator. He added that in his opinion, “managing wealth and making an investment is a secondary concern”.

Others take a slightly different view. “For the young ones having an art collection is not just about an investment. It is about building up an image, it is a status symbol,” said Claudia Albertini a director of Platform China, a Beijing-based gallery which describes itself as an “art salon to build up cultural exchange between Chinese and contemporary artists”.

“We had this in the Middle Ages,” she points out, referring to the famous Medici family (a banking dynasty credited with commissioning some of Italy’s finest Renaissance art).

Creating a private museum is a “feather in the cap” for those who are wealthy enough to be able to afford it, adds Albertini.

But whatever it is that drives
these young collectors and patrons, they are not to be sniffed at. Albertini told WIC: "They are the world’s big collectors of the future. They are constantly on the plane, they are curious, and fast, and they are very, very smart."

Goal-setting

China’s five-year football plan

When the Chinese national football team reached the quarter-finals of the Asian Cup in January the fans and the media were ecstatic. Xinhua hailed their three-match winning streak in the group stage as a “fairy tale run”. Even when the team failed to make it to the semi-finals the players were still dubbed as “heroes”.

Despite being a country of football lovers, Chinese fans have learned to moderate their expectations when it comes to the men’s national team. It suffered early exits during the group stage for the last two Asian Cup tournaments and has only once made it to the World Cup finals – in 2002, when the team failed to score a single goal.

However, if China’s ruling Communist Party is to have its way, all that is about to change.

Earlier this month the State Council issued a 50-point development plan for the beautiful game which covers everything from getting more children playing soccer, to changing the structure of the government agencies that administer it.

The ultimate aim is for both the men and women’s teams to be listed alongside other footballing superpowers and to host a World Cup.

“The unswerving drive to reform and revitalise football will improve China’s image as a sporty country and help it realise the national dream,” claimed the plan. Xi Jinping’s Leading Group on Reform is thought to be the power behind the overhaul. The Chinese leader is a self-confessed football fan and in the past he has listed China winning the World Cup as one of his dreams.

The questions is, can a plan – which also includes bland references to Deng Xiaoping Theory and strengthening the role of the Party – stand any chance of achieving that? Some have argued that the better fortunes of the Chinese team recently is largely due to officials’ washing their hands of the national squad so as not be tainted by its failure. Now that football has been made a national priority, the fear is more political meddling will ensue.

Yet the plan does take some steps to prevent that. The Soviet-style General Administration of Sports will relinquish its role overseeing the game and the Chinese Football Association – which has greater familiarity with the sport – will take full responsibility for it.

It also points out that people should have “reasonable expectations” of how quickly success will be achieved. The men’s team attaining international excellence is very clearly listed as a “long term goal”, for instance. (According to FIFA rankings, it sits 83rd in the world.)

Because the women’s teams have been more successful in the past – they won the Asian Cup in 2006 and rank 13th globally – they are expected to achieve greater things “over the medium term”.

So how will China go about making all this happen? Well, the plan aims to increase the number of specialist football schools from 5,000 today to 20,000 in 2020 and 50,000 in 2025. It also calls on local governments to find long-term investors to ensure local football clubs will have stability and funds to develop.

But perhaps most bizarrely the plan has also occasioned the publication of a series of illustrated textbooks from which more kids will learn how to play the game.

However, as WIC has pointed out before, the major problem facing football at the grassroots level is a lack of pitches – a situation that has worsened over the last 20 years as local governments have sold the best-located playing fields to property developers.

Textbooks are no substitute for turf...
And Finally

Currency swap
Counterfeiters turn their attention to renminbi

Anti-corruption fervour was on the agenda at the annual parliamentary session of the National People’s Congress this month. So much so that one delegate made a drastic suggestion. He proposed reissuing all the country’s bank notes with a different design.

The point: that corrupt officials would not be able to profit from their hoarded cash piles (i.e. they wouldn’t dare to swap their illicit savings into new notes).

In the end, the motion was not passed because the economic and social cost of reprinting the notes was reckoned to be too big.

Had it gone ahead, there would have been another positive impact – the removal of the countless counterfeit notes floating around the economy.

Last year, police confiscated Rmb532 million ($86 million) of fake money. Some forged notes are so convincing that even bank machines sometimes give them out. To counter this growing problem police have set up three state of the art anti-counterfeit centres to hunt down their production bases.

Amazingly 97% of all forged paper money – according to a recent article by Xinhua – can be traced back to the moulds created by one man: Peng Daixiang, an artist who was sentenced to life in prison in 2014. Using simple tools such as a magnifying glass, the 73 year-old made at least 24 master plastic plates for printing counterfeit bills, selling them for up to Rmb120,000 each.

Fake Rmb100 notes sell for up to Rmb50 each and gangs which make them can earn up to a Rmb100 million a week, Xinhua said.

In recent years, forgers have also started to produce smaller denomination notes and even coins. “Since people do not pay much attention to such low-value cash, the money is spread widely, harming the general public,” the Global Times quoted a senior police officer as saying. In February police in Shandong arrested a group of people who had produced Rmb160,000 worth of counterfeit coins.

The topic is a source of much grievance online. “Never use ATMs. They often dispense fake notes,” cautioned one weibo user, after an earlier post from someone who had just withdrawn a counterfeit Rmb100 bill.

Another person, a shopkeeper, claimed he is presented with forged notes several times a day.

Like all modern money, Chinese notes have safety features including a metal strip, a holographic feature and watermarks. But because the Rmb100 is the largest denomination note, even moderate purchases are paid with many more bills than a vendor can easily check for fakes.

One alternate suggestion to the NPC delegate’s idea of redesigning bank notes was to cap the biggest denomination at Rmb10, meaning that corrupt officials would need far more storage space. But that would make finding fakes even harder for shops, given the vast increase in notes they would need to count and check.

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Robots don’t go on holiday

“China is being particularly hit by labour shortages and labour rates”

Rethink Robotics’ chief marketing officer Jim Lawton tells the Financial Times that the Chinese market is a growth area for sales of its industrial robots. “We had one customer who recently went through the Chinese new year and 60% of his employees did not return,” Lawton claimed, adding that his robots could replace factory labour.

But are they fake?

Photo Source: Reuters

“China is being particularly hit by labour shortages and labour rates”

Rethink Robotics’ chief marketing officer Jim Lawton tells the Financial Times that the Chinese market is a growth area for sales of its industrial robots. “We had one customer who recently went through the Chinese new year and 60% of his employees did not return,” Lawton claimed, adding that his robots could replace factory labour.
Photo of the Week

Mass games: primary school students in Zhejiang do morning exercises

In Numbers

$4 billion
The amount of loans Ecuador expects to receive from different Chinese lenders this year. According to unofficial estimates, China committed more than $12 billion of financing to Ecuador between 2009 and 2014. Most of China’s lending to Ecuador have been tied to oil sales and several have been backed with presales of crude oil.

30%
Percent decrease in net profit at state-owned oil giant Sinopac in 2014, falling from Rmb66.1 billion to Rmb46.5 billion ($7.6 billion). The company said it expects to more or less break even in the first quarter as it “digested high cost crude oil and refined oil product inventories” while crude oil prices plunged.

Rmb300,000
The amount a Shaanxi villager Du Xiutang spent to build his own submarine. Du says he grew up loving the military and machinery. Unfortunately, his home situation wasn’t great, so instead of starting a career with the PLA, he dropped out of high school to work on the family farm. Even while tending to the crops, however, he still followed Chinese military and naval magazines, keeping up to date with the latest trends and designs.

Where is it?

Some of the places referred to in this issue

China

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