Fevered brows

Putian's hospital tycoons boycott Baidu's ads – triggering a fall in the search engine’s stock
Last Saturday the Hilton hotel in the Putian was reminiscent of the scene from *The Godfather* film when the leading mafia families met to settle a dispute. All the big bosses from this city in Fujian province attended, no cameras were allowed inside, and bodyguards made sure that no one was wearing wiretaps. Of course, the tycoons in the boardroom weren’t from the underworld. Instead they lead many of the country’s hospitals, controlling as many as 8,600 medical facilities in an empire worth more than Rmb260 billion ($42 billion), according to Changjiang Times.

After the four-hour session, the Putian tycoons presented a united front, announcing that they would call a halt to all paid promotional activities on Baidu, the dominant search giant in China. The bosses claimed that the move was not designed to provoke a confrontation with Baidu, or to put commercial pressure on the company. But critics say they are doing exactly that.

**What’s the big deal?**
As profiled in issue 242, businessmen from Putian, once a small fishing village, make up the single biggest group of private hospitals operators in China.

They got their start in the early 1980s, when a local doctor came up with a remedy for treating scabies – an infectious skin rash that was widespread at the time. To make his living, the man travelled around town selling the homemade cure for as little as Rmb1 per bottle. He was so successful that other people in Putian followed suit, turning the small enterprise into a national medical network.

Putian businessmen now tend to target treatments that have higher margins and that can be performed at relatively lower risk. Fertility programmes, plastic surgery and dental care have been especially popular. Importantly, these sectors aren’t normally included under national medical insurance, so patients often choose private hospitals that specialise in these categories.

The Fujian tycoons like to keep low personal profiles, but they were one of the first business groups to advertise medical treatments on TV.

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Meet the press: Robin Li’s internet search firm Baidu is getting media attention over hospital row
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IT’S NEVER JUST BUSINESS
and radio. They were also some of the earliest advertisers on Baidu’s search pages, putting their ads on the site from 2002 (two years after Baidu was founded) to lure people looking for medical services.

“In the beginning, it was a great partnership: Baidu brought many new clients to Putian’s private hospitals; and Putian’s advertising investment was instrumental to the rapid growth and later success of Baidu,” Changjiang Times concludes.

How did it all fall apart?
In the past, most of the private hospitals have signed annual advertising contracts with Baidu. But the search engine, leveraging its near-monopoly status, has become a tough negotiator, pushing for increases in advertising spending of at least a third a year.

Putian hospital operators are now pushing back. With more than an 80% market share of private clinics, they are some of the biggest advertisers online in China. The city’s municipal secretary Liang Jianguo even boasted back in 2013 that Putian-owned hospitals contributed Rmb12 billion ($1.93 billion) of Baidu’s Rmb26 billion in advertising sales. Baidu has countered that this figure is dramatically overstated, but industry analysts have estimated that Putian-owned business could contribute between 15% to 30% of its revenues.

Meeting Baidu’s growth targets for online spending has become increasingly difficult and in late March the hospital bosses decided to rebel—with the Putian Health Industry Chamber of Commerce announcing that its hospitals would stop paid promotional activities on Baidu. “The industry is facing severe problems and many medical facilities have been reduced to working for internet firms,” the association claimed.

That may not be too much of an exaggeration. One owner of four private hospitals told the Fujian Daily that he has spent more than Rmb10 million on advertising on Baidu over the last year. His own margins have been shrinking: he claims net income for his hospitals is only Rmb20 million.

“Our advertising budget is very small compared to other larger private hospital networks. I know some spend up to Rmb300,000 a day on Baidu just to become the high bidders on search results. So you can imagine after a year, the advertising costs become very scary,” he told the newspaper.

Baidu, the bully?
It isn’t the first time that Putian’s providers have accused Baidu of overcharging. In 2011, a number of hospitals said they had to pay up to Rmb600 for each click if they wanted to appear in its recommended results. But the complaints led nowhere and Google’s retreat from China in 2012 has seen Baidu strengthen its position in the search market. One plastic surgery clinic says it used to cost around Rmb30 per click when a user searched for a plastic surgeon but the rate has gone up to a few hundred yuan today. In areas of the country where consumers are wealthier like Shenzhen, the price can reach Rmb1000 for the top spots, says Fujian Daily.

The hospital owners are fed up. “Domestic private hospitals dedicate up to 70% of their advertising budget to Baidu. But as the cost for top spots becomes higher and higher, the only way for us to remain profitable is to decrease the quality of our service or increase our prices, which is bad for our brand,” an industry insider told Southern Metropolis Daily.

And the other side to the story?
Last week Baidu fired back at the hospital bosses, describing the Put-
ian protest as retaliatory. It says the tycoons are embittered because it has been refusing to post false or misleading ads, and that up to 60% of the rejected content was from members of the Putian association.

The healthcare ad market is “a long-term driver of revenues” for Baidu, insists Robin Li, its chairman, and it needs to offer higher quality information about medical treatments than its internet rivals Alibaba and Tencent, which have started new services to search for medicines and pharmacies, and to make doctors’ appointments.

The stricter screening also comes at a time when Baidu is launching a new medical platform and a mobile app called Baidu Doctor as part of its effort to expand into healthcare. Policymakers seem keen too: for instance, Beijing’s municipal government is using Baidu’s “health cloud” services for illness prevention and ‘pre-diagnosis assessments’.

So the row with Putian comes at a time when digital innovation looks set to shake up the sector, bringing the established operators into more direct competition with their former commercial partners. Almost all the population now has basic health insurance, up from a third in 2003. But health care coverage has not kept pace with potential demand, and the internet brands sense a huge opportunity to step into the gap.

Bloomberg gives prescription drug sales as an example. “The shift could reshape the $149 billion market for such drugs, by moving sales to web retailers and away from hospitals, which sell almost three quarters of medicines prescribed in the country.”

Of course, the severing of ties with Baidu comes at a cost to Putian businesses. “Marketing is what keeps the private hospitals alive. They can work with other search engines, such as Sogou, but those simply cannot offer the search traffic that Baidu does,” Lu Zhenwang, an internet expert, told the China Daily.

Sure enough, on Thursday this week there were signs that Putian’s tycoons were trying to reopen negotiations by reinstating some ads. But investors in the search firm seem worried too. Since news of the dispute started to make headlines in late March, Baidu’s shares on Nasdaq have dipped by 6%, losing $4 billion in value. The search firm could also face more resistance from other advertisers in the year ahead, especially as the economy slows, which could force Baidu to lower prices and clean up some of its less transparent business practices, warns Doug Young, author of Young’s China Biz Blog.

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**Breakfast of champions**

Tech rather than toast was on the breakfast agenda at the Boao Forum in Hainan at the end of last month, when Tesla’s Elon Musk, Microsoft founder Bill Gates and Baidu boss Robin Li met for an early morning session about technology and innovation.

Li served as moderator for the event, choosing questions from more than 500 queries raised by users of a Baidu forum. Unsurprisingly he kept things nice and cheerful, avoiding mention of the ongoing investigation into Microsoft’s Chinese tax affairs, and choosing not to quiz Musk on how Tesla can get closer to its sales targets in China.

Instead, The Paper.cn reports that Musk was asked whether radical thinking or hands-on management is more important for an entrepreneur to achieve success.

“I create a vision, and then I start solving problems,” Musk responded. “Tesla Motors was very difficult at first, and a lot of people said that only fools try to make electric vehicles. But as long as there is even a 10% chance of success, I will try.”

Musk also predicted large-scale production of cars with a driverless option within the next five years. Li chose to keep quiet on the topic, although Baidu is developing self-driving technology that is expected to trial on highways by the end of the year.

Gates and Musk also talked about how their careers had developed, citing a love of reading as an important factor. “I think reading is better than dialogue. When you have spare time, spend it reading. Now I can finish 10 lines in one glance,” Musk said.

“People always have limitations, and reading is the best way to break these limitations,” Gates added.
The People’s Bank of China (PBoC) said on Monday it has lowered minimum down payment levels on second homes from the current 60% to 30%. The central bank said the move was aimed at “supporting residents’ home ownership and improving housing demand”. The step adds to the government’s efforts to jumpstart the housing market. Two interest rate cuts since November, along with a loosening of property curbs in September, have so far failed to stem the decline, as new-home sales slumped 17% in January and February.

An explosion took place on Monday at a plant producing the chemical paraxylene (PX) in Zhangzhou, Fujian province, said Xinhua. PX is a flammable chemical used in polyester and plastics manufacturing. Construction of PX plants has spurred numerous protests, including violent demonstrations last year in Guangdong province. The mood won’t be helped by news that the latest incident was the second blast at the Zhangzhou plant in two years. Caijing magazine has blamed a lack of investment in safety and poor oversight for the repeated blasts.

Chinese securities regulator the CSRC has punished six brokerages for violating rules in their margin trading businesses. The sanctions came just over two months after the CSRC banned three leading brokerages – Citic Securities, Haitong Securities and Guotai Junan Securities – from opening new margin trading client accounts for three months. The punishment reflected the regulator’s determination to police the margin trading and short selling businesses more effectively. The Shanghai Composite Index has climbed 19.5% so far this year (for more see our recent Focus Issue).

The Shanghai-Hong Kong Stock Connect, which allows two-way trading between the cities’ stock exchanges, reached its daily limit on Wednesday for the first time since the link was started five months ago. The main reason for the uptick in demand was a decision by Chinese regulators to allow mutual fund managers to buy directly through Stock Connect, rather than make use of an existing quota scheme. The surge in liquidity from China also sent the Hang Seng Index to a seven-year high, with volumes the highest seen over the same period.

Country Garden, one of the largest Chinese developers by sales, will raise $812 million issuing new shares to Ping An Insurance. Ping An agreed to subscribe to 2.24 billion shares, representing 9.9% of the enlarged share capital. The developer plans to use the money to fund new projects and as working capital.

Dianping, a popular restaurant-review and group-buying services, has raised $850 million from a group of investors including smartphone maker Xiaomi, valuing the company at $4 billion. Dianping was launched a year before its US equivalent Yelp in 2003. It has more than 190 million monthly active users, according to company statistics.
In one of China’s biggest comedy films of 2014, two hapless musicians decide to pursue their dream career in New York, but end up ensnared in a war between triads.

The movie *Old Boys: The Way of the Dragon*, starred a singing duo called the Chopsticks Brothers. A mini-film produced by the two men was picked up by talent spotters at Internet video firm Youku Tudou, which subsequently financed the big screen version.

But in an unfortunate case of life imitating art, Youku Tudou – created by the merger of two major Chinese video portals – is now facing its own set of problems in New York. A group of investors has just accused the US-listed company of providing inaccurate and misleading financial information. Several law firms filed class action lawsuits at the end of March.

The move followed the release of Youku’s fourth quarter results, which included the revelation that the US SEC is investigating its accounts. Youku’s share price immediately lurched south, continuing a descent that has seen it lose half its value in the space of a year.

Company executives were quick to quell the negative speculation, no doubt conscious of past scandals at US-listed Chinese firms. In an internal email published by China Business Observer, Youku’s president Liu Dele told employees that the investigation is routine and that any changes required by the regulator are likely to have a negligible impact.

The SEC probe is said to concentrate on questions relating to revenue recognition for barter transactions, as well as how Youku values its licenced content. But over the past month, Youku has also been on the receiving end of some of the biggest drop in earnings forecasts of any of the major Chinese internet players. Having believed that Youku might soon turn a profit, many analysts are now realising that the company finds itself caught in the classic bind of having to devote increasingly greater sums of cash to sustain and expand its market share.

Profitability, on the other hand, continues to look elusive.

Youku faces a number of formidable competitors, not least Tencent, China’s largest online content provider. However, as 21CN Business Herald argues, at least it is burning its cash in a more rational manner than before. Rather than relying on third-party material, it has been investing in its own content and is planning to double the outlay on proprietary programming to $98 million this year. Talent spotters will stay on the look-out for creative talents such as the Chopsticks Brothers, tempting them with the prospect of multi-year contracts and co-production deals.

Youku’s tie-up with Alibaba is also expected to yield dividends in the future. The e-commerce giant owns 18.5% of the video site and some believe it may eventually try to buy Youku out. In the meantime, the partners are utilising Alibaba’s big data analytics to give advertisers more measurable information on Youku’s users, which should in turn spur additional advertising.

Ad spend currently accounts for 87% of Youku’s revenue, but pay-per-view and subscriber revenues are rising and could finally tip the company into profit. While 2014 net losses of Rmb228 million ($37 million) were higher than analyst expectations, revenues did beat consensus forecasts.

Youku Tudou will also be heartened by the fact that China surpassed the US as the world’s biggest box office in February, with takings of Rmb4 billion. During the fourth quarter of 2014, takings grew 41%, at Youku’s filmmaking arm, HeYi Pictures, which is co-producing 12 films over the course of the year.

There was better news for Youku investors this week too, when its shares rose the most in three years, soaring more than 14% in New York. While analysts cautioned that money was moving into Chinese stocks in Hong Kong and New York in general, because prices on Chinese bourses have climbed so aggressively.

And if *Old Boys* is a metaphor for Youku’s ambitions, it doesn’t bode too well either. The Chopstick Brothers end the movie with their showbiz dreams unfulfilled. They disband, leave New York and return to China – claiming to be happy to have tried and failed.
One way in which China differs from, say, Britain, is the degree to which many of its people take an interest in the achievements of Chinese companies abroad.

Thus, last month, when telecoms giant Huawei was given a clean bill of health by a British board that assesses national security, it not only made the news, it lit up social media networks too.

Twice, in less than a month, Britain had lent its support to Chinese organisations that the US is suspicious of.

“The UK-US relationship is changing from ‘special bond’ to having disputes,” China’s official news agency Xinhua said.

As readers of WiC will know, the first UK move to incur American annoyance was the decision to join the Asian Infrastructure Investment Bank (AIIB) last month (see issue 275). The US is wary of the Beijing-led project because it believes it will undermine the work of the World Bank and Asian Development Bank, run under the influence of Washington and Tokyo respectively.

When Britain announced its intention to join the AIIB the White House took the unusual step of releasing a terse statement: “This is the UK’s sovereign decision. We hope and expect that the UK will use its voice to push for adoption of high standards.”

But the Financial Times also quoted an anonymous American official criticising the UK and its “constant accommodation of China”, adding this was not “the best way to engage a rising power.”

Likewise Washington harbours deep suspicions about Huawei. In 2012 an intelligence committee from the House of Representatives labelled the telecoms equipment maker “a security threat”, claiming that it had ties to the Chinese military. It recommended that the Committee on Foreign Investment block all acquisitions, mergers and takeovers involving the Chinese firm.

Since then, Huawei has essentially been shut out of America’s telecoms infrastructure market.

So the Shenzhen-based firm was probably concerned when similar noises started emerging from the UK last year, where Huawei works with local brands such as British Telecom and O2.

The concerns, which originated in the Parliamentary Intelligence and Security Committee, focused on the workings of a cyber-security evaluation centre set up in 2010 to allow British experts to evaluate Huawei products before they were used in UK infrastructure.

Specifically, it was the fact that employees of the centre were on Huawei’s payroll that made the committee uncomfortable. Instead, it recommended the centre be staffed by employees of Britain’s intelligence agency, GCHQ.

Since then there have been two reviews of the Banbury-based centre, first by national security adviser Sir Kim Darroch, and then by the centre’s new oversight board, which is led by the intelligence services.

“Any risks to UK national security from Huawei’s involvement in the...”

London calling

UK’s critical networks have been sufficiently mitigated,” it concluded.

On the whole, Chinese media was delighted by the verdict. “The acceptance of Huawei by the UK is another example of China confidently and consciously confirming its peaceful rise,” an opinion piece celebrated in the Global Times. “It is a landmark event.”

Yet netizens were a little more sceptical of the UK’s motives, with some attributing Huawei’s clean bill of health to reciprocal promises of Chinese investment, as well as its backing of London as Europe’s leading hub for the offshore renminbi.

“This is an exchange. China has agreed to the trading centre and the UK has announced Huawei’s innocence,” wrote one.

Huawei said the evaluation showed that “in a globalised, interconnected digital age, we must all work together to deliver the best solutions to the challenges we face.”

Late last month Huawei posted annual profit of Rmb27.9 billion ($4.5 billion), up 33% from 2013. Revenues were up 21% to $46.5 billion, of which 60% was earned outside China. Huawei has set a target of making $80 billion in revenue by 2018. The UK’s green light ought to help it win more international orders in the future.”

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Fit and proper
Huawei gets green light from the Brits

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Photo Source: Reuters
No hiding place
*China unleashes Skynet against rogue officials*

The Economist ran a lengthy profile of Wang Qishan a fortnight ago, declaring him to be “China’s second most powerful leader”. It likewise described the anti-corruption tsar as both admired and feared. But one key element of Wang’s biography that the magazine failed to mention is that he is childless.

That matters greatly in a country in which state corruption and nepotism often intersect. By having no heir, it is a little easier for the rank and file to believe that Wang is a clean politician himself.

There was another reminder of the links between graft and family last week when it was finally announced that former security chief Zhou Yongkang would be tried for corruption.

Zhou’s case – to be held in the high-profile city of Tianjin, a mere half hour by rail from Beijing – will see the former security chief accused of accepting “massive amounts of wealth from others”, according to the prosecutor’s office.

The New York Times alleges that much of the malpractice was facilitated through Zhou’s children. Its investigation suggests that his relatives accumulated assets worth Rmb1 billion ($161 million) as a result of their patriarch’s political power and influence.

There is no indication that Zhou’s downfall will end the anti-graft purge. In fact, Wang’s office has just ratcheted up its efforts. At least four ministries will coordinate their activities to target fugitive bureaucrats overseas, as well as the entities that help the exiles to transfer their ill-gotten gains offshore, in an enhancement of Operation Fox Hunt, the Wang-led push to bring back absconders from overseas.

The new multi-agency operation has been given the codename Skynet, a designation that has sparked much chatter online. Fans of Arnold Schwarzenegger will recall that Skynet was the rogue computer system that battled humanity in his cyborg movies. As popular blogger Zheng Wei noted: “Skynet has been launched, and the Terminator will follow soon.”

Whether the name was chosen with *The Terminator* in mind is disputed. Others have suggested that it relates to the Chinese idiom that ‘the sky may look thin, but you can never escape it’. Beijing Youth Daily reports that the Skynet team will go after those who have fled, and put in place new measures that make it harder for others to flee in future. The Party’s Organisation Department, the Supreme People’s Procuratorate, the Ministry of Public Security and the central bank will coordinate measures to make it more difficult for fleeing officials to use fake passports, for instance, while Skynet’s other targets include the underground banks and offshore companies that enable illegal capital flight.

Skynet may mean more bad news for gambling hub Macau. As WiC has commented before, some of the junket operators bringing the wealthy to gamble in Macau have been a route for money to leave the mainland, which is then converted into Hong Kong dollars in the casinos. The casino city is already suffering from a slowdown which has seen many smaller junkets go to the wall. If Skynet focuses on the remaining junketeers, fewer high-rollers may travel there in future.

Another target will be offshore companies with links to state-run enterprises. Illicit activity here includes subsidiaries over-invoicing their parent companies, with dodgy suppliers kicking back gains on wrongly-priced deals to corrupt executives via offshore accounts.

WiC suspects that if Skynet does get serious about this problem, it will likely focus more of its attention on Hong Kong too.

Back on the mainland, the next wave of investigations into the SOEs looks set to widen – having begun with oil giant CNPC, a state firm that was closely linked to Zhou.

The financial gains of top state executives – both legal and illegal – were also a talking point during China’s parliamentary get-together last month, especially when China Unicom’s chairman Chang Xiaobing waded into the debate during the gathering by claiming to make just Rmb8,000 a month after tax.

The comments led to much criticism in the media, especially when it was revealed that the figure excluded numerous incentives in Chang’s pay package. The telco’s annual report revealed he actually earned a total of Rmb1.07 million last year.

SOE executives can expect more scrutiny in the months ahead.
Economy

Shortly before sending the lunar rover Jade Rabbit to the moon in December 2013, the commander-in-chief of the expedition was redeployed to Guangdong.

The transfer of Ma Xingrui, an aerospace scientist from Beijing, to his new role as Guangdong’s deputy Party chief was unanticipated. At the time it was suggested that the 56 year-old was tasked with tightening the central government’s grip in the province. After just two months in office, Ma led a direct attack on two of Guangdong’s murkier vested interests: the sex trade (see WiC226 for the crackdown on the sin city of Dongguan) and the druglords (see WiC221 for the raids in the ‘meth capital’ of Boshe). But it wasn’t until this month that the latest objective in Ma’s redeployment was revealed, with the news that he will also become the Party boss of Shenzhen.

Observers say that the appointment is significant because it implies that the city is going to get enhanced status on the national stage. Ma is one of the 205 Central Committee apparatchiks that votes for the members that sit on the ruling Politburo, making him the highest ranking Shenzhen boss in the city’s history. Before this, only Beijing, Shanghai, Tianjin and Chongqing – the four cities with municipality status in China – were headed by members from the Central Committee. (Ren Xuefeng, the Party chief of Guangzhou, is only a backup member of the Central Committee.)

“It underlines the elevated role of Shenzhen,” Hong Kong’s i-Cable Television reports, citing an official from the Chinese Academy of Social Science. “It is possible that Shenzhen will become the fifth directly-controlled municipality later this year.” Higher status for Shenzhen could bring more supportive policies from Beijing. “Shenzhen would communicate with the central government more directly. As such it can better understand, and carry out, the country’s strategic blueprint,” Guo Wanda, vice president of the Shenzhen-based think tank China Development Institute, told local media.

Could the move prove to be a winner’s curse for Ma? Three Party chiefs from Beijing, Shanghai and Chongqing have been ousted since 1998 (the latest case being Bo Xilai). According to Luo Tianhao, an outspoken researcher with the state asset manager Sasac, Shenzhen might not gain from the extra attention either. Avoiding a more direct relationship with the central government hasn’t done the city obvious harm. By contrast, it seems to have benefited, becoming home to some of China’s most competitive private sector firms, such as Tencent.

“The administrative model of the directly-controlled municipalities is outdated,” Luo suggests, believing instead that China should set up 10 “special cities” and encourage them to develop as megalopolis via their surrounding hinterlands.

An article published on the WeChat platform of the People’s Daily says that it will be difficult for Shenzhen to establish itself on a par with bigger rivals like Chongqing, simply because it isn’t large enough. (The population of Chongqing municipality is 30 million, three times that of Shenzhen.) “It is impossible, at least for the near future, for Shenzhen to become a directly-controlled municipality,” it concludes. “There is no need to over-read Ma’s latest appointment.”

Nevertheless, the newspaper says that for Shenzhen to grow further, it will need to absorb nearby cities such as Dongguan and Huizhou. That would fit with the central government’s master blueprint to create more integrated regional economies, like the Beijing-Tianjin-Hebei hub (see WiC231), and Time Weekly agrees that a supersized hub in the Pearl River Delta is inevitable.

Or could Shenzhen be combined with Hong Kong into a super special economic zone spanning the border between Guangdong and the special administrative territory to the south? However, if Hong Kong’s mini constitution, the Basic Law, is properly observed, that looks unlikely before 2047.
During last weekend’s tomb-sweeping holiday, state broadcaster CCTV devoted extended air-time to a commemoration of Chinese workers killed in Tanzania and Pakistan.

Hundreds of workers are buried there, having lost their lives building the Tanzania-Zambia railway and the Karakoram Highway in Pakistan.

Conceived during the Mao era, neither project turned a profit. China saw them more as a way of winning new friends during an era of diplomatic isolation. More recently the Chinese have been investing overseas again, although this time their efforts are flanked by greater financial and technological nous.

As we reported in issue 275, Xi Jinping’s “one belt, one road” blueprint envisages a network of highways, railways and ports linking China to central and south Asia, and then further afield to the Middle East and Europe. The establishment of the Asian Infrastructure Investment Bank (AIIB), meanwhile, is viewed as a means to finance some of these plans, with Xi telling last year’s APEC summit that infrastructure spending in Asia would top $8 trillion in the next 10 years.

China Communication Construction Corporation (CCCC) has the kind of pedigree that suggests it could benefit from the “one belt, one road” roadmap. Its predecessor helped to build the Karakoram Highway, and the Economic Information Daily says the company has a long tradition of moving in tandem with national-level plans.

CCCC is the largest port construction and design company in China, as well as the largest dredging firm. One of its key focuses has been the Pearl River Delta region, where the central government has been seeking to integrate Hong Kong and Macau more closely with the mainland. CCCC is involved in building a 50-kilometre bridge linking the two former colonial territories to Zhuhai, and it is also working on a Rmb38 billion ($6 billion) project to build a Dubai-style artificial island in Hengqin, an area near Macau which is three times the size of the former Portuguese enclave (see WiC208).

Driven by investor excitement about the Silk Road concept, Hong Kong-listed CCCC has seen its stock climb nearly 60% this year. As of Wednesday it carried a market value of $50 billion, although it is still trading on just 13 times its reported earnings.

On hold: CCCC’s port in Colombo

 Barely a year ago analysts were attributing a much lower valuation, based on profit margins in the low single digits. But investors now seem to see more reason to buy, with China’s ambitious infrastructure plan expected to result in stronger returns.

“CCCC is one of the top 10 stocks for investors along the new Silk Road,” the Hong Kong Economic Times suggests, pointing to the fact that it has already engaged in projects in a number of Asian countries.

Other state infrastructure firms such as China Railway Construction (CRCC) and China Railway Corp (CRC) have also registered strong gains this year, while stocks at the two state train makers CRN and CSR soared more than 40% this week when their merger was officially confirmed.

So does everything look rosy for the infrastructure giants? When China’s diplomatic relations come to the fore, there is always the risk that sweetheart deals will be cut with customers. CRCC’S light rail project in Mecca in Saudi Arabia cost the company Rmb4 billion in losses in 2010, for instance. Reportedly, company bosses were told to grin and bear it, as energy diplomacy was the order of the day in Beijing.

One of CCCC’s flagship projects is also struggling with the vagaries of international politics, after a $1 billion port-building programme in Sri Lanka was put on hold following a change of government in Colombo. Last month Xinhua said that the state construction giant is losing $380,000 each day that the project is delayed.
The avocado advocates

How the alligator pear is winning over Chinese shoppers

When supermarket chain Sainsbury’s first introduced the avocado pear to UK customers in 1962, unwitting shoppers assumed the new fruit should be eaten with custard, just like tinned peaches.

But a decade later the avocado had become a symbol of Britain’s growing post-war affluence. No discerning dinner party was complete unless avocado had been served as the starter (the prawn cocktail was another favoured hors d’œuvre much enjoyed by middle-class diners in the seventies).

Now it is China’s turn to be perplexed by this nutrient-heavy fruit, which tastes like a vegetable and should be eaten only when its rind has turned an off-putting shade of murky brown.

CBN reports that Chinese avocado consumption has jumped 127 fold over the past four years, with consumers chomping through almost 4,000 tonnes of them last year.

Exports are still the preserve of just two countries, Mexico and Chile, although New Zealand hopes to join the list of approved exporters this year as it tries once again to cash in on the Chinese desire for fresher produce, which not only confers health benefits, but also conveys a visible stamp of prosperity.

Julie Escobar, a sales director at fruit-and-veg trader Robinson Fresh tells CBN: “China’s consumption of perishable goods has experienced dramatic changes in the past couple of years. It all stems from the growing middle class and their desire to adopt a healthier lifestyle with more fresh fruit and vegetables.”

Social media has also accelerated interest in avocados, says CBN, with international celebrities such as Gossip Girl’s Blake Lively helping to create greater public awareness thanks to the promotion of vegetable-based drinks and shakes on their lifestyle websites. Supermarkets and local importers have also worked hard to educate shoppers, with tastings and giveaways, while in-store posters help customers out with tips on how to tell when an avocado is ripe, how to peel it and how to best serve it.

CBN says importers have also had to learn how to handle the fruit in order to maintain their margins. In the early days, a single avocado would retail at about Rmb2 ($0.32) because of the high wastage rates (typically up to 30% of consignments were spoiled before they reached the supermarket shelves).

Zhao Guozhang, founder of fresh-food e-retailer Fruit Day says he has managed to reduce his loss rate to 5% after understanding how to vary storage temperatures according to the different seasons, and in figuring out the maturity profiles of the fruit after its 25-day shipment from Latin America to China.

Consumers can now buy avocados for Rmb7 to Rmb10 each, although Zhao says this has been at the expense of his own profit margins. However, he says he is happy to accept the squeeze while he builds demand for a product known as an ‘alligator pear’ (the literal translation of an older English term for avocados, which were thought to resemble crocodile skin) or as ‘butter fruit’.

Avocados have gone through almost as many names in their history as there are ways to eat them. The modern day term comes from the Spanish word aguacate, which is thought to be derived from the indigenous identifier ahuacatls, or testicles, because of their shape and supposed aphrodisiac effect.

In modern day Mexico, avocados are eaten with salt alongside a cup of coffee, while Brazilians tend to mash them into ice cream as a dessert. CBN says China is creating its own culinary traditions. Many of the new devotees are simply slicing them into tofu like blocks and dousing them in soy sauce. Others have begun using them as filling for dumplings. There is even an avocado themed restaurant that opened last summer in Shanghai. Dishes include avocado and beef cheesecake, and raspberry and avocado mousse.

The Chinese are also beginning to explore cultivation of avocados of their own own. The hope: that the soil and climate in sub-tropical provinces such as Hainan, Guizhou and Guangdong could be suitable for production.
Six years ago, when the British oven maker AGA Rangemaster was first planning to try out the China market, it asked a chef to work out which cooking techniques the two cultures had in common. The answer was a shock.

Of the 10 ways that the British apply heat to food, and the 15 Chinese ways doing it, there was only one clear overlap – boiling.

It wasn’t the best of indicators for an iconic British brand whose products are deeply associated with Sunday roasts, freshly baked cakes and richer UK families.

But AGA’s CEO William McGrath was undeterred. True, China had spent the best part of the last 4,000 years shunning oven-based cooking, but, everything – including the way people make food – was changing, he argued.

Which is how, on March 27, McGrath came to be standing in front of a hall full of people in Beijing, launching the AGA TC and its sister brand RedFyre.

“We have made China a priority. We think it could be transformational for us just as it was for Jaguar Land Rover,” he told WIC earlier in the day.

A bit like AGA, which is labouring under the weight of huge pension deficits, Jaguar Land Rover (JLR) was close to bankruptcy before launching the Evoque SUV in China. Now, China is its largest market and it has even begun local production.

The trick, said McGrath, is getting the Chinese to see AGA and the RedFyre ovens in the same light as JLR’s cars – a great British product, with a long history of quality.

“Authentic British is very important to buyers here. So the idea that you can buy a product still made in the factory where Abraham Darby first smelted iron ore with coke in 1707 is going to be key,” he said.

Other trends in AGA’s favour are a rising interest in Western food, especially baking, and a shift away from traditionally narrow kitchens to open-plan spaces that are also used for dining and socialising.

McGrath believes that scares over food safety have triggered a wider interest in healthier food too. So one line that AGA will be pushing is that food cooked in one of its traditional ovens requires less fat to make because there is no fan drying the dish out.

Factors such as the loosening of the one-child policy and the lack of central heating could also come into play, says McGrath, as the company intends to promote it always-on ovens as the warm “heart of the home”, where families snuggle up.

AGAs are popular in rural England but will the Chinese be persuaded? For those who aren’t quite ready to buy into the full AGA story there is also the RedFyre, which has been engineereed to incorporate a powerful wok burner that “would be illegal in the UK”, notes McGrath.

This ought to adapt more to local tastes. The Redfyres are also cheaper, priced at between Rmb50,000 ($8,059) and Rmb80,000, compared to as much as Rmb250,000 for an AGA. They will be stocked too in Chinese stores, unlike AGAs which will have to be ordered from the UK.

Interestingly, when the first order does arrive it won’t be the first AGA to be installed in China. That honour goes to the oven sitting in the kitchen of a faux Scottish castle at the Treaty Ports Winery in Shandong province. The owner, the winemaker Chris Ruffle, was McGrath’s roommate at university. Ambassadors like that might well pique interest from China’s status-obsessed super-rich...
Cervantes’ knight Don Quixote is the insane protagonist of what is often regarded as the world’s first novel. And according to Andrew Scull’s recently published *Madness in Civilisation*, insanity has been a topic of fascination for the literary world for centuries, becoming particularly popular thanks to the work of Sigmund Freud.

In 1924, the American movie mogul Samuel Goldwyn even crossed the Atlantic to meet Freud, offering him $100,000 to come to Hollywood to write a story for the screen. Goldwyn’s proposal was rejected. Nevertheless, as Scull notes, madness has had plenty of movie moments. In 1975 *One Flew Over the Cuckoo’s Nest* won five major Academy Awards. This feat was not matched until 1991: by *The Silence of the Lambs*, which featured the psychopath Hannibal Lecter.

In China mental illness hasn’t got the same movie treatment. From the late 1960s, mental incapacity wasn’t even classified as an illness but rather as faulty appreciation of the class struggle. Patients would be taken from hospitals and sent to labour camps because of perceived counter-revolutionary”behaviour (see WIC53). More recently the situation has improved. Since May 2013, the Mental Health Law (the first of its kind in China) has required that most psychiatric commitments be voluntary.

With this context in mind, it is hardly surprising that few Chinese studios have focused on mental disorder as a dramatic device. This taboo, however, seems to have been broken by *Insanity*, starring Sean Lau and Michelle Ye from Hong Kong, as well as Huang Xiaoming from the mainland. In the film, a long-time mental patient convicted of involuntary manslaughter is released from a psychiatric facility on the advice of his doctor. A series of murders swiftly follow. As the drama unfolds, the line between madness and sanity, as well as patient and doctor, becomes blurred.

Lau and producer Derek Yee are the movie’s only A-lister names (although Huang’s profile got a boost when it was announced he will tie the knot with actress Angelababy later this year). This lack of star-power means *Insanity* has been faring modestly at the box office. Beijing News said the movie earned only Rmb30 million ($4.8 million) in the first four days following its release.
debut this month.

That looks even less impressive when you consider that audience turnout will have increased over the Tomb Sweeping Festival holiday last weekend. Strong sales so far this year have already seen industry takings break through the Rmb10 billion threshold in less than 100 days (it took 141 days in 2014).

However, Insanity is scoring stronger reviews from the critics in the Chinese newspapers. “Excellent story telling, full of unexpected twists. You can’t anticipate the end until the end,” Xinhua Entertainment marveled, while a critic at Chengdu Economic Daily wrote more about the audience reaction. “A girl sitting in the front row kept screaming,” the reviewer reported.

Many expect Insanity will be a winner at this year’s Hong Kong Film Awards, and it has already been nominated in four categories, including best new director for David Lee Kwong-yiu, who is a Cornell University graduate.

In interviews Lee told reporters that he spent five years researching the subject matter. The movie’s producers also believed it was the right time to acknowledge mental illness more overtly, given that Chinese audiences have been showing a shift in interest away from historical dramas to more contemporary issues.

“When I took the Beijing subway, I could see the stress on people’s faces – even more so than in Hong Kong or Japan. Mental conditions are still a new topic for movies in China, and few directors have proved adept at handling it,” the producer Derek Yee told the South China Morning Post.

Lee added that the movie censors had no problem with Insanity as the film is “based on science and focused on humanity”.

“Insanity is a thriller but it is about the mental health of modern, urban people. Its primary goal is to relieve the pressure. From this angle it is a movie of significant meaning,” Xinhua Entertainment added. Certainly incidences of mental health problems have been on the rise, with China’s breakneck growth and its rapid change cited as factors.

“The biggest contribution of Insanity is that it helps to raise public awareness and understanding of mental illness,” Shenzhen Urban Daily agreed, noting that the film has been released a month before the second anniversary of the Mental Health Law.

It is also the 12th anniversary of Hong Kong superstar Leslie Cheung’s suicide the newspaper noted. Suffering from acute depression, the actor jumped to his death from a city-centre hotel on April 1, 2003.

Perhaps the censors were more lenient because of more cases of suicide in the government ranks as well. According to Jiefang Daily, up to 112 Chinese officials have killed themselves since 2003. Many more suicides by civil servants will have gone unrecorded. Certainly, some may have wanted to avoid arrest in the intensifying anti-graft campaign. But others may have been suffering from mental illness and depression.

The targets of a narcotics sting in Wenzhou in January were an unlikely crowd: a group of older women at a karaoke parlour.

“Plain-clothes officers at the door of the karaoke room watched a number of elderly people go inside and suspected that they were drug users,” a police spokesman told television news.

The group had sent out invitations to the drug meet via the mobile app WeChat, with coded messages that it was time for ‘eating stewed food’. Ketamine was the hallucinogen of choice, with participants paying as much as Rmb5,000 for their evenings of indulgence.

“When the police opened the door, they were blown backwards by the loud music,” an eyewitness told Tencent News, after officers swooped on the revelling retirees.

“Inside, in the dim light, there was a group of people twisting their bodies crazily.”

Three people were imprisoned for
arranging the sessions, while another 17 were fined for taking part. Most were female and in their fifties.

Anti-social behaviour among older people was mentioned briefly in WiC220, but there was a surprising degree of sympathy in some of the media coverage of the partying pensioners – and certainly more than might have been extended to drug-abusing youngsters.

“This group of Wenzhou damas has nothing to do at home all day,” Tencent News explained. “They don’t get up until the afternoon, and then they pass their time taking drugs to have fun.”

Dama translates as “big mama” in Chinese and generally refers to married women between the ages of 40 and 60, usually from the middle class. The term gained popularity about two years ago when the financial writer Song Hongbing dramatised damas as routing Wall Street after buying up large quantities of gold after a price dip. Later that year they made headlines again for herd-like investment in Bitcoin, the digital currency (see WiC218).

No longer young, many damas are still active. Most have left formal employment, with the female retirement age (of 55) five years ahead of men. In the past, some retirees took on a monitoring role in local communities, reporting abnormal activity to the police. Known colloquially as the “small feet patrol”, they have since been replaced by the chengguan (generally disliked urban management officials: see WiC203).

For aging housewives there can be a lack of fulfilment too. Most women in their fifties have only had one child, and they are having to wait much longer for grandchildren than earlier generations.

In extreme cases this loss of purpose seems to have led to drug taking (although the Wenzhou party crew was much wealthier than average, which may have encouraged their experimentation).

More common is for damas to gravitate towards square dancing. WiC has mentioned these dance displays before (in one case a routine that celebrated China’s military victory over the Japanese; see WiC245). They also seem to have a therapeutic value for many of the older women. “Essentially, square dancing is a way of venting some of their frustrations. It combines social expression, exercise and recreation into one. And it lets the damas find a sense of belonging,” Tencent News says.

The People’s Daily gives an example of a typical dancer, a 57-year-old from Beijing who planned to spend her retirement taking care of a grandchild, but who is waiting for her daughter-in-law to give birth. To fill her time, the woman started to play mahjong all day. This was no good for her health and she got depressed. It wasn’t until she started to dance that her sense of vitality was renewed.

“During the dancing we encourage and praise each other, and even get applause from passersby,” she told the newspaper.

Millions of others have found meaning in square dancing, with some of the most enthusiastic devotees even taking the trend overseas.

Last year, police were called to impromptu displays in Red Square in Moscow and Brooklyn in New York, for instance, while Parisians were perplexed by a pop-up performance outside the Louvre.

Back at home the media has reported on heated arguments between damas and local residents, who sometimes regard the dancing as noisy and disruptive.

In one case in 2013 a man fired a shotgun over dancers’ heads in Beijing before letting three large dogs off their leashes in an attempt to scare off the boppers.

Hence the interest last month when the government published proposals aimed at streamlining square dancing into standardised routines, with the rollout of national training over the next five months.

“Square dancing represents the collective aspect of Chinese culture, but it seems that the over-enthusiasm of participants has dealt it a harmful blow with disputes over noise and venues. So we have to guide it with national standards and regulations,” advised Liu Guoyong.
the chief of the mass fitness department at the General Administration of Sport (GAS).

The new routines are based on “scientific design and public health considerations,” Liu explained, noting that an expert panel of instructors had been part of the preparations for the changes.

“The unified drills will help keep the dancing on the right track where it can be performed in a socially responsible way,” argues Wang Guangcheng, the specialist tasked with preparing 600 instructors to provide training in the 12 routines that make up the new programme.

Wang claims that dancers are going to be better protected with the new choreography than currently. “Repeated squats, for instance, will injure peoples’ knees,” he warns.

But plenty of netizens greeted news of the routines with disdain, seeing them as further evidence of meddling by the nanny state. “The regulators want to turn square dances into loyalty dancing. It sounds more and more similar to the Cultural Revolution,” one complained. “The government just wants to show its muscle,” another scoffed. “Next up, the Health and Family Planning Commission will be giving us a guide on how to make love.”

Stung by the reaction, sports officials pointed out that the recommendations aren’t mandatory. “Asking all square dancing groups to follow only one standard is definitely impossible, and we never meant to do that,” the dance unit clarified.

Domestic media is also reporting that no details for the standards have been set, like recommended volumes for music, or the places and times at which dancing is allowed.

Ironically, this is just what many of the dance critics have wanted, and there is frustration that the authorities haven’t done more to move millions of the older women off the streets.

“There’s no need to regulate dance steps as they are just a form of recreation. But what needs to be taken seriously is how to provide elderly people with proper facilities to work out without disturbing others,” one weibo user insisted.

Among the damas themselves the response to the campaign was mixed. “I will never learn those routines, they are like the mechanical morning exercises that students do in the schools, and not elegant dancing,” one greying diva vowed to the Global Times. But other dancers seemed to like the proposals, especially if they mean getting professional instruction for free. “I’m an organiser of square dances and me and all the other old people I know support the idea of the new standards,” a delighted dama wrote on her weibo.
Large numbers of Chinese officials have suffered the ignominy of being stripped of their government cars. And now they are suffering the shame of being exposed as woeful drivers too.

The double whammy is the unintended result of Xi Jinping’s anti-extravagance campaign, which has tried to ban all officials below vice-ministerial level from using state-funded cars and chauffeurs.

Many of those abiding by the new rules are having to go to driving school for the first time in their lives – and the results, it seems, aren’t pretty.

Take Ms Zhang, a 52-year-old bureaucrat from Changchun in Jilin province, who was long accustomed to being ferried around in a government vehicle. From this spring she has found herself with only a small stipend to pay for work travel. Her response was to buy a car and drive it around herself. The problem with the plan? She can’t pass her driving test.

A story from Xinhua reveals that Zhang has been through three driving instructors and sat the exam 10 times – all to no avail.

“Every time I fail I get more irritated,” she was quoted as saying.

Then there is the case of the 56-year-old bureaucrat, also from Changchun. His seniority at work appears to have rendered him incapable of taking any form of instruction. “In the office everyone listens to him so he has a lot of ideas of his own when learning to drive. He only wants to drive his way,” his instructor, Song Bo, complained to Xinhua.

Ou says he will sue the police for defaming him, after officers released his name to the media when they found him with a young woman in a hotel room in Hunan’s capital Changsha. Ou claims that he travelled to the city to meet a man surname Chen who had expressed support for his work. The two had dinner and drinks in a karaoke bar and then Ou went back to his hotel. Later, one of the girls from the bar, came to his room and initiated sex. Minutes later the police burst in, taking photos.

Ou claims the whole operation was a sting as the police had video footage of what happened inside the room – which they threatened to release – and because they later gave the tape of his police interview to a local TV station. The 62-year-old denies having sex with the woman, partly because there was no time and also because no money changed hands – two rather important requisites for charging someone with solicitation.

“It was a deliberate action to blacken my name,” the indignant campaigner told The Paper.cn.

If that really was the aim, the move seems to have backfired. Most netizens seem to think Ou is innocent. And even if he isn’t, few are too bothered by his transgression.

“I don’t care if he hired a prostitute, I care that he is the victim of an abuse of power,” one wrote.

“Even if he hired a prostitute, it’s not a big deal. Shame on you [officials]! Don’t you know it is the usage of public cars for private business that we hate,” raged another.
In Numbers

Rmb78.08
The share price of Lens Technology, Apple’s touch-screen glass supplier, on March 31 in Shenzhen. At that level, it turns company CEO Zhou Qunfei into China’s richest woman. She holds 592 million shares in Lens, valued at $7.4 billion, surpassing the $7.1 billion fortune of property investor Chan Laiwa (for more on Zhou see WiC274).

10
The number of container megaships that shipping and port giant China Cosco is set to order. The so-called Triple-E vessels, which can move 19,000 containers each, will be ordered from a Chinese yard and will cost about $1.4 billion in total.

$14.7 million
The amount paid at Sotheby’s for a Song Dynasty vase in Hong Kong, one of the highest prices ever paid at auction for a ceramic from that period. Sotheby’s said the buyer was Shanghai-based collector Liu Yiqian, who paid a record price at auction last year for a Ming Dynasty bowl known as the “chicken cup”.

100
The number of restaurants that burger chain Johnny Rockets plans to open in China. “There is a strong demand in China for American brands as well as a growing middle class population with more spending power,” said Scott Chorna, senior vice president at the chain.