Against the grain

Failure of a rice harvest in Anhui puts Sinograin back in the spotlight
Grains of truth

Will setbacks in China’s food security plans rattle commodity prices?

Thomas Robert Malthus is best known for his 1798 essay on overpopulation, which warned of a world in which humanity was unable to feed itself. Malthus pointed out that while human populations can increase exponentially, agricultural production grows at an arithmetic rate, suggesting future food shortages and widespread starvation. (Only war and disease served to counter surging numbers of people, the English cleric and demographer believed.)

Malthusian theory seemed to be backed up by Chinese history too, where it was widely held that whenever the population climbed over 100 million, catastrophic unrest followed. Be it a widespread famine or the collapse of a dynasty through war, this population growth would then be checked.

The picture only began to change during the Qing Dynasty when the Middle Kingdom’s population not only exceeded 100 million but topped 400 million by the time of the First Opium War in 1839. This explosion in people, according to one school of thought, was made possible by the introduction of new staples like corn and potatoes. These easy-growing crops reduced China’s reliance on rice as its main source of starch, increased the food supply in general, and thus helped to fuel a demographic boom without triggering infighting over scarce resources.

Nevertheless Chinese leaders since Mao have often suffered from moments of Malthusian misgiving. China’s population shot past one billion people in 1981 – just three years after the one-child policy had been adopted to contain its growth – and the challenge of feeding one fifth of the world’s population on one tenth of its arable land has always been a pressing concern.

To address this food security issue, policymakers in Beijing have attempted to develop newer breeds of higher-yielding rice, and they have built up the world’s biggest stockpiles of grains.
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But both these strategies have suffered major setbacks this month, stimulating debate on the implications for China’s food security policies and the likely impact for global commodity prices.

**Talking Point**

**Who moved my super rice?**

The first of the two setbacks emerged a fortnight ago in Anhui province, where serious crop failures were reported. These occurred after a bout of rice blast, which is a fungal disease. More than 10,000 mu (667 hectares) of farms experienced low yields or outright crop failure, according to the Southern Weekend newspaper.

News of the blight soon rippled across the country. Anhui is an important rice-growing base and farmers there have been cultivating higher-yielding rice varieties that are supposed to be more resistant to diseases. They were sold the seeds by Longping High-Tech Agriculture, a firm named after China’s most renowned agricultural scientist. Until this month 84 year-old Yuan Longping has been heralded as a homegrown genius for developing China’s first hybrid rice by cross-breeding two parental lines with distinct genetic backgrounds. Yuan – also dubbed as the “scientist worth Rmb100 billion” – has come to epitomise China’s food security drive. In October last year the Ministry of Agriculture (MoA) announced that Yuan’s harvests broke world records for hybrid rice production, with an average yield of more than 1,000 kilograms per mu (see WiC126 for the first time he broke the record; since then he has even been nominated for a Nobel Prize).

Longping High-Tech carries his name but is run by his son and is backed by the government of Hunan province. But Yuan’s reputation looks to have been tainted by the bad news emanating from the bad news emanating from Anhui. According to Southern Weekend, the crop failures in Anhui were related to the super-rice strain “Liangyou 0293”, which is produced by the company. The allegation is that Longping High-Tech has engaged in fraudulent marketing and failed to warn farmers about the seed’s resistance to rice blast, the newspaper has reported. The Anhui government has since pledged to the MoA that “Liangyou 0293” will be withdrawn from sale in the province.

Longping High-Tech has explained that the crop failures in Anhui were mainly due to adverse natural conditions including low temperatures (the coldest for two decades). Still, it has stopped selling the strain in question.

Clearly, the MoA does not want to see public confidence in Yuan’s super rice dented too far (although Yuan’s photo is on the back of the company’s operations).

In a report entitled “Rats in the granary”, its reporters revealed how officials at Sinograin have been storing old or inferior rice bought at discounted levels, and then faking the paperwork to make out the crops were purchased at state-regulated prices.

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A huge but rotten grain reserve?

According to the People’s Daily, super hybrid rice now accounts for about 30% of the country’s total rice cultivation area, and has an average yield of 590 kilograms per mu. Thanks largely to this higher output, total grain production (including rice, wheat and corn) has grown for 11 years in a row and hit a record of 607 million tonnes in 2014.

A portion of these harvests ends up in the 346 granaries of Sinograin, a state firm established in 2000 to boost China’s grain reserves. Sinograin normally stores as much as 35% of the country’s annual grain consumption, cushioning farmer incomes in good times while keeping retail prices stable when yields fall. (Critics say the price floors encourage farmers to continue to grow crops when demand is lower, which has contributed to the 11-year run of bumper harvests).

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The broadcaster proclaimed that two depots in the northeastern provinces of Liaoning and Jilin were engaged in the scam, although it isn’t clear if other granaries are also involved. Sinograin’s track record isn’t inspiring, however. The state firm has been caught out before in review national standards for different hybrid rice varieties, and it reiterated the need for China to develop rice strains more resilient to adverse conditions.
two embezzlement scandals in 2010 and 2011. And in 2013, a blaze destroyed nearly 50,000 tonnes of grain in Heilongjiang province, just four days after central authorities had ordered an audit, triggering speculation that the blaze was started on purpose (see WiC197).

Sinograin vowed last week to launch a thorough investigation into the case. But many onlookers are unconvinced. “When a fire destroyed Sinograin’s storage in Heilongjiang in 2013, Sinograin promised to publish the officials responsible and instigate reform to prevent similar incidents,” the Beijing Times has noted. “Now more corruption involving the company has been uncovered and Sinograin has made a similar promise again. The facts prove that internal supervision in powerful SOEs cannot prevent corruption, and more external supervision is obviously needed.”

Why the storm in a rice bowl?
There is no suggestion that the crop failures in Anhui (which happened in October last year but were reported this month) are linked to Sinograin’s latest scandal. But both incidents have drawn public attention at a similar time, as well as linking food security concerns to Wang Qishan’s graftbusting team, which is known to be looking more closely at the agricultural sector.

“We always believe our country can produce enough food for the people. But a few days ago we were informed of the super-rice failures in Anhui. And now we have Sinograin’s rotten grains,” a popular blogger wrote on Sina Weibo. “How many rats are there in our granaries? For the sake of our food security, we need a corruption crackdown in the system.”

A single crop failure doesn’t undermine the advantages of super hybrid rice in general, the China Daily has suggested. But how this incident is handled, it argues, will be a test of the leadership’s “governing capacity”.

The Guangming Daily noted the “obvious flaws” in the way that agricultural regulators approve rice varieties for plantation across the country. It also called for a compensation mechanism that holds seed developers responsible in cases of major harvest failures.

But Sinograin has been drawing most of the wrath. “Sinograin has failed in its self-proclaimed mission (to safeguard national food security), and thus failed the nation,” the China Daily claimed in an editorial. “Fortunately it has not taken a real famine for us to discover the worrisome state of our strategic grain reserves; or the consequences could be unimaginable.”

The national reserve can only be used to make room for the next cycle. But China Daily reckoned the latest scandal could mean that replenishment hasn’t happened, and that a sizable part of the current stockpile has gone bad. The newspaper went on to call for an overhaul of the grain reserve system, including the breaking up of Sinograin’s monopoly status: “If it is truly beyond Sinograin’s capacity to single-handedly manage our national grain reserves, changes must be made.”

The China Youth Daily agreed: “So many problems over the years have emerged under Sinograin’s management [of the national grain reserve]. It makes us worry whether this company can safeguard our national security, and we should rethink if the current system is the most scientific or the best way going forward.” The newspaper suggested China should learn from the United States, and encourage the private sector to take more of a role in stocking up the national food reserve.
What changes could happen?
The State Council said last month that it would allocate $25 billion for the reserving of grains, edible oils and other agricultural products this year. No official data about grain reserves is released, Caixin Weekly magazine points out. But it cited experts who estimate that by the end of this year, total grain reserves will reach 300 million tonnes. That’s equal to 45% of the country’s total grain consumption last year.

The Financial Times noted that CCTV’s report on Sinograin was the first official acknowledgement that parts of China’s agricultural stockpile may have degraded. As China is also estimated to hold about 60% of the world’s cotton stocks and 40% of its stored corn, changes in the country’s reserve system could have global ramifications.

“The true quality of China’s grain reserves holds serious implications for global commodity prices. If the stockpiles include large amounts of unusable grain, China could be forced to increase imports sharply, causing international prices to jump,” the FT said.

Caixin Weekly has also argued that a large grain reserve “comes with equally big problems”. One of these is the result of government subsidies that help to create a price floor in the market. The magazine reports that domestic corn prices are nearly $160 higher (per tonne) than international prices. Conversely, this encourages imports. The MoA has estimated that China imported at least 50 million tonnes of grain that were not needed (and which meant the domestically-grown stockpile grew bigger).

Policy changes seem imminent. Last month, Chen Xiwen, deputy director of the central government’s leading group on rural affairs, called for a “quicker transformation of agricultural development under market rules” and there have also been calls to exploit arable land more efficiently, by growing less rice and planting crops that grow more easily instead.

In January the MoA proposed that the country grow more potatoes, for instance, making it the newest ‘official’ staple food after rice, wheat and corn.

Although the Chinese are already the world’s largest potato producers, with a harvest of 90 million tonnes in 2013, per capita consumption is low. In fact, there is surplus production and China is the world’s 10th largest exporter of the crop. Potato yields are much higher too – 27.2 tonnes per hectare, compared to 6.8 tonnes for cereals, according to government data.

Of course, consumers will need to be convinced as well. “Potatoes can be mixed into bread, steamed buns, and noodles to suit taste and habits,” Xu Xiaoshi, the national planning agency director, told a food policy meeting in Beijing. Still, CCTV has been circulating potato recipes on its weibo account in an attempt to drum up interest.

Most commentators weren’t too impressed, mind you, fearing that China’s prized culinary culture could become “more like that of meat-and-potatoes Britain”.

“Do you know why potato is translated as tudou (earth bean) in China?” one food fan queried. “It is because it is a bean, not a staple food in our rice bowls.”

Sand blasted

CCTV’s main offices in Beijing are known locally as ‘the underpants’ in an unflattering reference to the TV headquarters’ unusual design. The building was back in the news last week when the capital was hit by its worst sandstorms in 13 years. The timing couldn’t have been worse for the broadcaster, which had spent the previous 40 days scrubbing the building’s glass.

“CCTV spent Rmb500,000 ($80,651) cleaning ‘the underpants’ only for it to be submerged in sand in just 10 minutes,” reported the Shanghai Morning Post. Netizens were quick to poke fun too. “The big pants are dirty on the inside, not on the outside,” wrote one, hinting at the corruption cases that have blighted the broadcaster. In a similar vein another netizen posted: “Rmb500,000 was spent washing the outer walls, but even Rmb50 million is not enough to clean up the inside.”
President Xi Jinping concluded a two-day state visit to Pakistan during which he pledged $46 billion worth of investment, of which up to $37 billion will go towards fixing Pakistan’s dilapidated power infrastructure. A network of rail and road projects linking the port of Gwadar, on the Arabian Sea, with Xinjiang in China, is also planned (see page 9).

China will draw on its massive foreign exchange reserves to inject $62 billion of new capital into state-owned policy banks in support of its “One Belt, One Road” plans, said the Financial Times. Caixin Weekly reported that two banks – China Development Bank and Export-Import Bank of China – will receive these capital injections in the form of entrusted loans that convert to equity as part of the plan.

Jaguar Land Rover said it would not take action against Jiangling Motors over the Chinese automaker’s Landwind X7, which JLR alleges bears a striking resemblance to the Range Rover Evoque SUV. JLR said the problem is that China’s intellectual property laws don’t provide the company with sufficient legal recourse. “There are no laws to protect us, so we have to take it as it is,” its chief executive Ralph Speth told reporters at the Shanghai Motor Show. “In Europe, we can be protected against this kind of copy-paste in the design language… You can’t be protected in China,” he said.

Also at the show was Norbert Reithofer from BMW, a carmaker which has reduced prices on some of its models in China and is cutting production to prevent a buildup of unsold cars. Reithofer warned that carmakers need to be prepared for single digit Chinese sales growth. “We only sold 14 Rolls-Royces in February. Something has clearly changed in China.” The German firm is also working to integrate Tencent’s popular WeChat messaging app into its cars. Competitors like Nissan Motor and Daimler have also said they want to preinstall the app at some point.

Yum Brands, which owns KFC and Pizza Hut, posted profit and revenue declines in the fiscal first quarter of this year. Yum’s China sales in the quarter were down 9% from a year earlier, to $1.3 billion. Overall net income slid 9% to $362 million in the quarter from a year earlier too. The company tried to strike a more positive tone: “[China results] are still negative, and we’re not happy with negatives,” said a company spokesman. “[But] there’s a lot to be excited about at KFC China, and...we have every expectation that we will continue to regain sales and build on this momentum.”

Canadian circus firm Cirque du Soleil says it has sold a majority stake to private equity firm TPG and the Chinese conglomerate Fosun. The new owners of the entertainment brand said they plan to expand its presence in China, as well as increase revenues from third-party licencing deals and enhanced ticket sales.
Xi Jinping may not have been familiar with the English saying that ‘two’s company but three’s a crowd’ when he suggested that China, India and Sri Lanka should work together to promote growth.

He floated the idea during a state visit from Sri Lanka’s new president Maithripala Sirisena in late March, also pledging $1 billion in financial aid for the South Asian island nation.

Many believe that China’s newfound enthusiasm for working more closely with India is a direct outcome of the change of mood it has encountered in Sri Lanka – after Sirisena defeated his former colleague Mahinda Rajapaksa in national elections in January.

Nor was China Sirisena’s first overseas port of call after taking office. That was India, and in February Narendra Modi responded in kind with the first state visit by an Indian prime minister to Sri Lanka in more than three decades (a legacy of the country’s bitter civil war between the Sinhalese and its Tamil minority).

Modi’s visit coincided with an announcement that China’s flagship port city project in Colombo was being suspended while the new government examined the first phase of the deal for suspected environmental breaches and illegal payments.

Sirisena told reporters that Xi didn’t mention the project during their discussions, although the same cannot be said for the Global Times, a Chinese state newspaper.

In an editorial it warned that, “Colombo knows this project is crucial to the development of the capital” and that Sri Lanka “needs foreign investment more than ever”.

Ren Fiqiang, deputy head of the Chinese embassy in Sri Lanka went one step further this month, telling Sri Lanka’s Sunday Leader newspaper that construction at the port should continue while the government reconsiders its options.

“If one side suspends the project, they will have to face the legal consequences,” he warned. “China has come to assist you and yet you pour dirty water over China’s face. That isn’t fair.”

Former president Rajapaksa agrees. “I wanted development for Sri Lanka and China was the only one which had the resources and inclination to help me,” he told Hong Kong’s South China Morning Post recently.

“They should be thankful to China for the help they extended. Instead these people are treating China like a criminal.”

Just before Easter, Reuters reported that the Sri Lankan government is reviewing 35 other infrastructure projects, 28 of which had been awarded to Chinese firms. They include the Lotus Tower in central Colombo, potentially South Asia’s tallest building.

India’s Tata Group has also had a $400 million housing project put on hold and Australia’s Kerry Packer failed to win a licence for a proposed $300 million casino resort project.

But it is China that appears to be most firmly on the back foot, partly because of its perceived closeness to the former regime and partly because of the sheer scale of its lending to Sri Lanka since the end of the civil war in 2009.

Reportedly, Beijing has advanced over $5 billion in loans, but the new government believes large sums were either earmarked for the for-
mer president’s vanity projects, or used corruptly. Local newspapers allege that figures close to the former administration may have misappropriated up to $10 billion after the government tracked down $1 billion to a single account in Dubai (Mahinda Rajapaksa has been summoned to appear before the nation’s anti-graft body).

Another allegation is that many of the new infrastructure projects may never pay their way. Chief among them is an international airport close to the former president’s hometown in Hambantota. It cost $210 million to build, but welcomes only a handful of passengers a day. Even the domestic flag carrier stopped flying there shortly after the presidential election, saying it was losing too much money.

The new government is also unhappy about interest rates on Chinese loans of up to 6%, when it believes the country would have been better served with concessional loans charging interest of less than 1%. In February, Colombo was unsuccessful in persuading the IMF to extend a $4 billion loan so that it could retire some of the Chinese debt. It now hopes to renegotiate its borrowings on a bilateral basis.

The Sirisena government thinks that it holds a trump card, however. China’s desire to create a 21st Century Maritime Silk Road incorporating ports in Sri Lanka is running up against India’s desire to contain Chinese expansion in the region. In fact, India has a competing plan to revive its historical trading routes called Project Mausam (named after the monsoon winds that once propelled ships across the Indian Ocean).

Chinese tourists, meanwhile, seem undeterred by the geopolitical manoeuvring. Over Chinese New Year, they were the second largest visitor group to Sri Lanka, topping the British for the first time. By the end of the year, they are likely to have cemented that position on an annual basis.

Nonetheless, it is India that holds the number one spot, with 242,734 visitors in 2014. Of course, India has deeper cultural and ethnic connections to the countries bordering the Indian Ocean than the Chinese, and New Delhi has been working to tighten its ties in the region. In Sri Lanka it has been helping with the reconstruction of the Tamil-dominated north, for instance: putting up 27,000 new homes, dredging Kankesanthurai port and rebuilding the Northern Railway line. Prime Minister Modi has also suggested that New Delhi could help the eastern port of Trincomalee become a regional petroleum hub by installing oil tanker facilities there.

Naturally, Sri Lanka wants to be on good terms with both of its larger partners. But it will be a difficult balancing act – managing its own expectations against those of Asia’s two emergent superpowers.
Corridors of power

Pakistan energy deal heralds high-voltage plan

Xi Jinping commemorated his landmark trip to Pakistan this week with a mention to the local media that it was like going to visit the home of his brother.

Then again, no sibling would expect such a generous gift from his visitor. In this case Xi’s Chinese delegation announced $46 billion of investment in their south Asian neighbour.

The spending will focus on the China-Pakistan Economic Corridor (CPEC), which will run 3,000km from the Arabian Sea to China’s westernmost land border. In connecting the city of Kashgar in Xinjiang with the Pakistani port of Gwadar, the programme offers the most tangible evidence yet of China’s “One Belt, One Road” plan to spearhead its economic might deeper into the Eurasian landmass.

But the plan is momentous for Pakistan too, given it is almost three times the total foreign direct investment that it has received since 2008. About $34 billion is being allocated to energy projects, and $12 billion more in loans for road, rail and pipelines through the corridor over the next 15 years.

In exchange, China will get the shortest possible route for importing oil from the Gulf, avoiding seaborne transportation for almost all of the journey.

Power is high on the agenda, with natural gas, coal and solar energy projects set to generate 16,400 MW of electricity in a much-needed boost for Pakistan’s president Nawaz Sharif, who has promised to put a stop to power blackouts. The first sign of the plan in action came on Monday, when the Silk Road Fund, the China Three Gorges Corporation and the Private Power and Infrastructure Board of Pakistan signed a memorandum of understanding for a hydropower project. The commitment for the $1.65 billion Karot dam is the first investment from the $40-billion Silk Road Fund since the Chinese government established it last year, a Chinese official told Xinhua (see WiC269 for more on Sino-Pakistani relations).

Away from the coverage of Xi’s trip, the media has also been discussing Xinjiang’s growing importance as a supplier of power – at home and, potentially, overseas. This is being made possible by advances in ultra-high voltage power (or UHV), the press reports. When electricity is forced to travel longer distances, more of it is lost in transmission. But losses are reduced if the voltage is increased, which is why China has been developing UHV grids of its own.

Policymakers hope that this expertise in transmission technology will open up opportunities for cross-border sales. Xinjiang, accounting for almost a third of China’s land border and sitting next to five of the seven countries of Central Asia, is a prime candidate as a gateway producer.

“It’s just like exporting goods such as garments and slippers, and the price for electricity in countries like India and Pakistan is very good,” Lin Boqiang, director of the China Centre for Energy Economics Research at Xiamen University, told the Global Times last month.

Lin also says that the prospects for electricity exports to neighbouring countries look good because State Grid has learned how to build power networks in remote, high-altitude terrains like Xinjiang.

The Xinjiang Daily is also reporting that the state power giant is close to announcing breakthrough deals on cross-border supply to Kazakhstan, Pakistan and Mongolia.

This fits the vision of Liu Zhenya, State Grid’s chairman and one of the pioneers of the programme to criss-cross China with a series of ultra-high voltage lines by the end of the decade (see WiC235).

Critics counter that UHV is untested on a mega-scale and warn that faults could lead to country-wide blackouts (see WiC174). But Liu has a bolder vision in which power supply is less constrained by territorial borders as it is redistributed across Asia from renewable sources as distant as Mongolia, Siberia, the deserts of Central Asia, and the Bering Strait.

Naturally, Liu will see State Grid as the power broker in this tightening of energy relations across the Asian landmass, while most of the new network is going to be built by Chinese firms, and with Chinese funding.
One Ting at a time

Markets reverberate on mixed signals

What Gordon Gecko is to Wall Street, so Ting Hai is to Hong Kong. Over the past two weeks, the city’s newspapers have been full of speculation that repeats of TV series *The Greed of Man* will prompt a pullback in local stock markets (see WiC 277). Ting Hai was a short-seller and the legend is that the market falls whenever the series is broadcast (or, indeed, whenever the actor who plays Ting appears on TV at all).

Earlier this week, the station, which produced the show admitted it was only rescreening the drama because of the boom in Hong Kong stocks. In the space of 11 trading days between March 27 and April 16, the Hang Seng China Enterprises Index rose almost 24%.

But Chinese regulators may have been paying more heed to a warning delivered to Fong Chin-bok, another character in *The Greed of Man*. “Human instinct tends towards the greedy and many will go to no end to gain unearned wealth,” Fong’s mentor Yip Tin tells him. “Thus a paradise [the stock market] turns into hell. Countless people become penniless, even losing their lives.”

The CSRC, the stock market regulator, is conscious that one million retail brokerage accounts a week were being opened in March. Working from 2014 data, Bloomberg has estimated that 6% of China’s new investors are probably illiterate, with a further 25% leaving school before the age of 15.

This leaves CSRC bosses with the difficult job of trying to maintain a bull run, but avoiding the kind of bubble that could wipe out novice investors when it inevitably pops.

Meanwhile, their counterparts at the central bank have the tricky task of trying to shrink the shadow banking sector and reduce overall leverage, while pump-priming the economy to keep GDP growth going at around 7% a year.

This delicate balancing act has led to a series of seemingly contradictory policies. The overall aim, nevertheless, is to maintain momentum in the equity markets and the underlying economy.

Last Friday, the CSRC led the way with measures covering umbrella funds and short-selling that seemed designed to have a dampening effect. Umbrella funds are estimated to provide two to three times more leverage than margin trading and the new rules prevent brokerages from establishing new umbrella arrangements, although existing products can remain as long as they were legal in the first place.

The regulator has also increased the number of stocks available for short-selling from 900 to 1,100.

Then on Sunday, the central appeared to be trying to reinvigorate the market with a surprise 100bp cut in the reserve requirement ratio (RRR), which dictates how much money banks need to keep on deposit with the central bank.

As HSBC writes: “The magnitude of the cut – the largest since November 2008 – signals Beijing’s heightened concerns over the growth slowdown and disinflation.”

Analysts say the RRR cut should inject about Rmb1.2 trillion ($193.7 billion) of new liquidity into the system. However, the expansionary move may not be enough to counteract the liquidity effect of the clampdown on local government financing vehicles and shadow banking sector – two of the biggest borrowers in recent years. Instead, the government has turned to the policy banks for a more targeted approach to lending. One upshot is that China Development Bank’s commercialisation is being reversed (see WiC 189 for more on how CDB wanted to become a more typical lender). In mid-April, the State Council agreed to a capital injection enabling CDB to provide more low-cost funding for infrastructure projects that fuel growth, and analysts believe its loans may double to Rmb1.5 trillion in 2015.

On Monday, stock markets in Hong Kong and China fell as they absorbed the mixed messages from the CSRC and PBoC. Then they dramatically bounced back on Tuesday.

For the moment, it seems that the market is not taking heed of Yip Tin’s warning. “I have been in the stock market for years and I have never seen a true winner,” the market guru concludes. “A smart person should know that this is a battlefield where no winners will emerge. There is only one way to win: leave the market early.”

He played Ting Hai: Adam Cheng
Last week was the 150th anniversary of Abraham Lincoln’s assassination. Before the era of cross-Atlantic cables, the news travelled at steamboat speed, reaching Europe in 12 days. Reuters was the first to report the shooting in London, which then threw European financial markets into turmoil.

News reporting like this cemented Reuters’ position as the leading news agency in London. Later the advent of ‘the American century’ fuelled the growth of Dow Jones, and later Bloomberg, in New York.

With China’s own economy now larger than America’s (in purchasing power parity rankings), a number of firms are competing to become the Chinese answer to Thomson Reuters and Bloomberg. “Reuters was born when London became a world financial centre... It is just a matter of time to see the emergence of a powerful Chinese financial information company,” says Zhang Changhong, chairman of Great Wisdom (or Shanghai Dazhihui).

Zhang heads one of the aspiring data providers. Indeed, he was so keen to turn his Shanghai-based firm into a Chinese Bloomberg that he may have taken a few steps too far. Great Wisdom’s desktop terminals, including their keyboards and colour codes, looked so similar to Bloomberg designs that the Americans took Zhang to the Chinese courts. The case was dropped in 2013 after Great Wisdom made some changes to its terminals, according to the Global Times.

Since then Zhang’s fortunes have brightened, largely because China’s stock markets have been the world’s best performing since the second half of 2014. Companies such as Great Wisdom epitomise the new euphoria among Chinese investors. As of this week, it was trading at a valuation 626 times above its 2014 earnings, with a market capitalisation of Rmb64 billion ($10.3 billion).

A smaller rival of Great Wisdom’s has registered even more spectacular gains, prompting the Wall Street Journal to label it as the most expensive stock in China.

Shenzhen-listed Hithink Royal Flush is now worth Rmb40 billion, having increased in value more than 10 times over the past 12 months. It now trades at 746 times its reported net profit. It provides web-based financial data and services (at the site 10jqka.com.cn). By the end of last year, it had 226 million registered users. Subscription and advertising fees on its premium content (mainly financial data, as news is largely free) accounted for almost 75% of its Rmb260 million in income. System installation and maintenance contributed another 17%, while about 8% came from fast-growing “other services”, like distributing asset management products, the Economic Herald magazine reports.

East Money Information, another data provider with a market cap of Rmb72 billion, made half of its total revenue selling third-party asset management products last year.

“All these three listed players are expanding into financial services,” the Economic Herald noted.

Unlike Bloomberg and Reuters, the Chinese firms seem set to become brokerages. Last week East Money announced that it will spend Rmb4.5 billion to acquire Tibet-based Tongxing Brokerage, while Great Wisdom unveiled a Rmb8.5 billion takeover of Xiangcai Securities late last year. CBN says that both deals came with brokerage licences, and the expectation is that Royal Flush will push deeper into financial services too.

All three started out as data providers, but are now turning to selling financial products across their huge customer bases. The trio’s combined market cap stands at $28 billion, just below Thomson Reuters’ $35 billion. But a big piece of the puzzle is missing in the Chinese market. Another major player – Wind Information – isn’t listed. And with the recent bull run in Chinese stocks, analysts are waiting for Wind to take the plunge too (see WIC217 for our profile of the company’s founder Lu Feng).
Evergrande boss Xu Jiayin suffered a bit of a slap in the face in Sydney at the beginning of March, when Australia’s Treasurer Joe Hockey ordered him to sell a $30 million mansion in the affluent suburb of Point Piper.

Evergrande bought the villa “via a string of shell companies” located in Australia, Hong Kong and the British Virgin Islands, Hockey told the media. But the purchase was improper because Xu forgot to notify the Foreign Investment Review Board (FIRB) that it was being made by what was ultimately a non-Australian company.

Hockey said Evergrande had 90 days to find a buyer for the mansion. The forced sale is the first such case for more than eight years in Australia. While non-residents can purchase newly-built properties, existing structures are not so immediately available. “The rules are straightforward,” FIRB chairman Brian Wilson, told the Australian Financial Review. “It’s an existing property: you have to be either a resident, or a citizen or a temporary resident. You can’t be a foreign investor.”

Xu Jiayin hasn’t responded publicly to his Sydney setback, although it seems unlikely he will recoup the full value of the mansion in such a pressured timeframe.

As a billionaire, he might not be too bothered. And certainly, Xu is busy with other matters, including Evergrande’s continuing diversification away from its core property business, this time with the launch of a plastic surgery resort for tourists who want nips or tucks while they are on holiday in Hainan.

Last year the developer bought a stake in South Korea’s biggest plastic surgery operator, Wonjin Aesthetic Surgery Clinic, on the back of growing demand for cosmetic surgery among Chinese customers. Highlighting that it plans to expand further in the sector, Evergrande’s latest purchase will be built in Lecheng in the special economic zone of Boao in Hainan province. The goal is to attract tourists who want to relax in tropical climes as they recover from double-eyelid procedures, botox and other treatments.

Analysts are generally supportive of the move. China’s beauty industry – which includes the sale of cosmetics – reached Rmb850 billion ($137 billion) last year, an increase of 15% from a year ago, says Beijing Business Times. “The anti-aging healthcare industry, in particular, is still in the early stages of development, so there is huge market potential. In addition, the plastic surgery industry has a much higher profit margin compared with property development,” an insider told the newspaper.

Evergrande is also moving ahead with plans to rename Hong Kong-listed New Media, its most recent acquisition (see WiC262), as Evergrande Health Industry Group. It will then inject its bottled water division, which it launched in January of last year, as well as other new ventures in grain and cooking oil production.

New Zealand-based infant formula maker Cowala Dairy – purchased last October – will also be included in the health group.

Evergrande already owns a plastic surgery centre in Tianjin, which it operates with Wonjin Beauty. The Korean firm is also a partner in Boao, where Evergrande will face competition for patients from Sincere Watch (a shell company owned by Hong Kong-based businesswoman Pollyanna Chu), which is investing Rmb380 million to engage in medical tourism. Sincere says it plans to expand into treating more serious diseases such as cancer, and will eventually offer organ transplants.

“The idea (of Boao) is similar to the Shanghai free-trade zone. The only difference is the Shanghai zone is to attract banks and brokers, and Lecheng in Hainan wants to attract doctors, nurses, beauticians, Chinese herbalists and dieticians,” claims former Hong Kong Hospital Authority chairman Anthony Wu Ting-yuk, who is now co-chairman of Sincere Watch.

Other Chinese property firms are also looking for ways to respond to the slowdown in domestic real estate, although most have opted for ideas closer to their previous experience. Vanke has been switching into commercial real estate and sizing up overseas deals, for instance, while Wanda has also branched out into entertainment (see WiC211).

But Evergrande is going for a bolder makeover, it seems.
China Consumer

Ride to the rescue
Theme park bosses look for foreign help

The Hello Kitty theme park made its technicolour debut in Zhejiang province at the start of this year. Costing more than Rmb2 billion (320 million) to build, it features rides with carriages shaped like apples, a Ferris wheel plastered in hard-to-miss Hello Kitty logos, and a luxury resort decked out with plush, pink furniture.

Huzhou Daily said Sanrio, the Japanese owner of the Hello Kitty franchise, wasn’t heavily involved in the design of the theme park, beyond approving items that carry the Hello Kitty image.

But perhaps a little more input from Japan might have helped, as the early response to the park has been lukewarm at best. Yinrun, the developer behind the attraction, is a property-to-mining conglomerate with little experience in theme parks, reports CBN Weekly.

(In fact, Yinrun was advised by Hettema Group, a California-based theme park designer.)

In addition to the forthcoming Shanghai Disney, CBN says there are more than a dozen theme parks under construction in Eastern China alone.

But as WIC reported in issue 228, most amusement parks in China struggle to make money because of poor planning and management.

Of about 3,000 parks on the mainland, only 10% are profitable, according to Yang Yanfeng, a researcher at the China Tourism Academy.

Yang told the South China Morning Post in February that developers often dangle the idea of a theme park in front of local governments so that they can grab land at low prices. Once the park is open, the hope is that upgrading of public facilities nearby will boost property values, making money for the developers.

"As for the future of the theme park, they don’t care that much," Yang warns.

The relative absence of foreign companies is another reason why China lacks world-class attractions, say analysts. So far, the investors in theme parks have tended to be domestic property developers, tourism companies and even wealthy coalmining bosses. It is not until next year that Disney will open its Shanghai Disneyland, while Universal’s new project has taken a decade to negotiate, and still isn’t scheduled to open until 2019. Media conglomerate 21st Century Fox is also said to be looking for a site for a park featuring hits like Ice Age, Alien and The Simpsons.

"Many Chinese developers think that as long as they invest a lot of money they can get anything they want, but this is wrong," says Kelly Ryner, who heads theme park design company Thinkwell in the United States. "The developers are very inexperienced. They think that by increasing the size of the roads and by adding a larger number of seats it will be enough to cope with the busiest five days of the year. This is a huge mistake. If you design a park considering only those few days when many people visit, it will look very deserted at other times."

Ryner also tells CBN that she takes her Chinese clients to America every year to study what makes the parks there so popular. Indeed the very lack of local expertise means that opportunities for foreign designers in China have increased too. Dalian Wanda, which is scheduled to open a theme park in Yunnan, had three international firms submit their design proposals during the planning stages, paying all three of them in full for their time. (CBN Weekly says concept drawings for Chinese theme parks can fetch as much as $7 million apiece. Ultimately, Wanda awarded the contract to Canadian firm Forrec.)

Thinkwell has increased its headcount in the Beijing office from only three to 10 people in the past year, while Gary Goddard, founder of Gary Goddard Entertainment, another park and upscale resort designer based in Hollywood, estimates that about half his work is coming from Asia and the Middle East.

"A lot of them have never done this before," Goddard told the Los Angeles Times. "China doesn’t have a 50-year history of theme park operations."
Only a few hours before *Fast and Furious 7* reached Chinese cinemas, two drivers in Beijing had a go at rivalling the stunts in the film. The incident involved a Lamborghini trying to overtake a Ferrari in a tunnel (almost never a good idea). The Lambo driver lost control of his car, sending it careening into the side of the tunnel, tearing out a large part of its panelling before ramming into a dividing wall. The front of the Lamborghini was completely ripped off while the Ferrari was smashed along its side and rear (surprisingly, only the female passenger in the Lamborghini was injured, Beijing police confirmed).

The crash has drawn attention online, with some questioning how the drivers – whom the police said were jobless – were able to afford their high-performance rides (the general assumption: loaded parents). The accident also brought back memories of another high-profile smash three years ago, when Ling Gu, the son of an aide to former president Hu Jintao, was killed when his Ferrari crashed in Beijing.

Ling Jihua, the driver’s father, was later sidelined from politics over an attempted cover up of the accident and on graft-related charges.

Some joked about the reasons for the reckless speeding. “Were they in a hurry to watch *Furious 7*?” one ne-tizen mocked.

Even without the unscheduled publicity, the latest instalment of the *Fast and Furious* franchise, which stars Vin Diesel and the late Paul Walker, has taken the Chinese box office by storm. In just eight days it made Rmb1.5 billion ($240 million) at the box office, becoming the quickest to cross the Rmb1 billion mark (in only five days). It is now the second highest grossing American film of all time in China, behind only *Transformers: Age Of Extinction* at Rmb1.9 billion.

Small wonder, then, that during a visit to Beijing’s Sanlitun district in March to promote the film, Diesel told a screaming crowd, “I love China!”

He also told the Chinese media: “If there is another *Fast & Furious*, it will be filmed in China,” before adding that “the idea of an actor from China being part of the *Fast saga feels inevitable.***

Local films that opened in the same week as the Hollywood sensation were crushed. Fan Bingbing’s
Ever Since We Love, which came in second place, made just Rmb70 million in ticket sales in three days. “We have been beaten black and blue,” its director Li Yu told Information Times.

The Furious franchise is a rarity for Hollywood, as it’s not based on a comic or book series. Global audiences have embraced the franchise’s impressively ridiculous stunts, but what specifically accounts for its unexpected success in China? Since the fourth film Chinese release in 2009, the Furious family has built up a significant fan base. Instalment four brought in only $4.5 million in ticket sales, but the fifth instalment, released just two years later, increased to $41.6 million. Furious 6 took a total of $66.8 million in China in 2013, but the most recent release looks like making more for the film in China than in the US, which industry experts say is a landmark moment for a Hollywood blockbuster.

Robert Cain at China Film Biz says that it helps that Furious had no Hollywood competition in its opening week, and that it enjoyed a massive nationwide release. (The fact that China Film Group is one of the financial backers of the film may help to explain how Furious 7 managed to be shown on a record 5,454 cinema screens. The Wall Street Journal reported that the state-owned film group purchased a nearly 10% stake in the production from the studio Universal.)

The tight knit cast may also appeal to family-oriented Chinese cinema-goers: “It is not just a film about car racing, there is also family love: the love between two brothers, brother and sister, and husband and wife. As Vin Diesel’s character Dominic Toretto likes to say, ‘I don’t have friends. I got family,’” one netizen wrote.

Another fan agrees: “Even though Dominic Toretto is not the best looking man in Hollywood, he is calm and he will do anything to protect his family and friends. How many times has he risked his life to protect his loved ones? He may not have any supernatural powers but he is a superhero in my eyes.”

The film has also fed on nostalgia about Walker, who died (aged 40) in a car accident while Furious 7 was in production. “In the mass consumer culture, there is nothing that increases the appeal of a star like death. It is both cruel and absurd. But for young and handsome stars, their untimely death often triggers an outpour of public pity and idol worship. Look no further than James Dean, and more recently, Heath Ledger. There is no doubt that one of the reasons for Furious 7’s success is the star power Paul Walker brought with his death,” says Beijing Youth Daily.

A quick look at weibo supports the theory. “The song See You Again and the flashbacks of Paul Walker are the perfect tribute to the actor. There was not a dry pair of eyes in the cinema when I was there,” one fan recalled.

But Cain’s final conclusion is mostly that the film’s triumph is a case of it being “the right movie at the right time”. “Furious 7 is precisely the sort of big budget, effects-driven, Hollywood action spectacular that Chinese audiences love best,” he explains. “Sure, superhero movies are nice, but as the Transformers franchise has amply demonstrated, what the Chinese really want is machine porn: movies featuring monster machines that race and fly and do gravity-defying stunts to save the world. It had been nearly a year since the last such film in this genre, Transformers 4, graced China’s screens, so there was lots of pent up demand when Furious 7 arrived.”

Out of tune
Karaoke culture is waning

Until recently karaoke seemed to be as integral to Chinese culture as soy sauce and chopsticks. KTV bars were everywhere – even small villages – and in cities like Beijing, companies like Cashbox and Melody built glowing singing centres that could house thousands.

Now, the lights are being switched off in these temples of fun.

China’s KTV bubble has burst – a victim of changing trends and the new political climate.
Take Melody, a neon pink complex in the heart of Beijing which used to rock until 4am each morning. Prices for a small room there once started at Rmb250 ($40) an hour, and drinks cost triple what you would pay outside. Even so, sometimes the queue for a slot was more than two hours, even in the middle of the night.

Today Melody’s car park is empty and its gold lamé interior uninhabited.

The reasons for the venue’s collapse, say local media, are threefold: costs are rising, young people don’t like karaoke as much as they once did, and officials and executives from state-owned enterprises have been told to stay away from KTV parlours under Xi Jinping’s austerity rules.

Other big KTV chains such as Cashbox – also known as Party World – and Party Life have fallen foul of the same changes.

“The KTV industry is in crisis,” the Beijing Youth Daily has warned.

KTV entertainment started to appear about 20 years ago in China. At first it was too expensive for most people to enjoy regularly. But more places opened up and it became more accessible and less glamorous. Simultaneously KTV bars developed a reputation as places frequented by gangsters, dodgy businessmen and ladies of the night. They weren’t always the safest places to visit – fights often broke out, as did fires, and the evening’s bills were regularly padded out for unsuspecting customers.

In many ways the KTV scene became synonymous with the gaudy lawlessness of some of the Hu Jintao era.

Xi Jinping, of course, is making a show of cleaning up Chinese politics and Chinese society. Hence delegates attending the parliamentary session in Beijing last month were expressly banned from going to karaoke bars. And even during less sensitive parts of the year KTV joints have seen government officials stay away because they no longer have the money to spend on entertaining. “The industry’s current bleakness is connected to the ‘Three Publics’,” the Beijing Youth Daily quoted a KTV club operator as saying, referring to Xi’s slogan for curbing officialdom’s once lavish expenditure on travel, food and cars.

Yet it is more than the austerity drive that is forcing the likes of Cashbox and Melody to shut up shop – China’s hipster youth also play a role. If they go to KTV, nowadays, they want more for their money than a microphone and a cracked video screen. The best chains understand this, and are trying to keep up with the digital age. One format that is popular with the twenty-something crowd is Show Time because its terminals allow participants to record their warbling and then download it onto their smartphones.

But others say KTV’s days are numbered because people are spending more time online or opting for healthier pursuits, such as hiking and yoga. And with popular venues now reporting just 50% occupancy even at peak times over weekends, there may be some truth to the predictions of an irreversible decline.

“Young people have richer, more stylish, more interesting and innovative entertainment options,” The Paper believes.

“KTV was a product of its time, and of its generation. That generation has grown up,” the China Daily adds.
Home and away

China hopes for an end to its Hong Kong jinx in World Cup qualifiers

One of the most humiliating memories for China’s national football team was its loss in 1985 to Hong Kong in the World Cup qualifiers. After losing 2-1 in front of 80,000 at the Beijing Workers’ Stadium, China could no longer qualify for the finals in Mexico the following year. Fans were so distraught that there were protests in the capital’s streets.

So when China and Hong Kong were paired in the same group for the World Cup qualifiers again this month, many fans welcomed the chance to avenge the defeat.

Bhutan, the Maldives and Qatar also join the group, in a line-up that gives China a great chance of moving into the next round. Ultimately four or five Asian countries will qualify for the 2018 World Cup in Russia.

Chinese fans were excited about the draw – and not just because the team has dodged more formidable rivals. There is also the view that travelling to matches has become more a lot more appealing. “Two are shopping paradises (Hong Kong and Bhutan), the other has an unrivalled view of the sea (the Maldives) while one (Bhutan) is the perfect spiritual destination... Travel agents should push for holiday packages that cover these destinations,” one netizen enthused.

Modern Express published a guide on what to do in each of the destinations, including a visit to Tiger’s Nest in Bhutan and scuba diving in Male, while China News Net ran an article about the climates of each country to prepare fans for their trips to the away games.

Sports reporters also looked forward to covering the matches. “All these years of travelling near and far with the national team have paid off. I can’t wait to go to ‘work,’” one soccer scribe told NetEase, a portal.

Will the matches turn out to be walkovers for the Chinese team? An online poll saw 70% of netizens describe the draw as “very favourable” to China’s prospects of reaching the finals in Russia.

“No matter how you look at it, there is no reason for China not to be able to advance to the next round,” claimed one fan, noting that Bhutan sits at the very bottom of FIFA’s world rankings.

China ranks 82nd in the rankings, ahead of its group rivals.

China was handed an apparently easy group in 2004 too, drawing Hong Kong, Malaysia and Kuwait. In the last game it needed to beat Hong Kong by eight goals to qualify. Although it won 7-0, China still went out on goal difference.

“Please learn how to do the maths this time,” the Nanfang Daily pleaded.

SINO-FILE

Flexible friends

“I respect him as a teacher, an older brother and a friend”

ChemChina boss Ren Jianxin on Pirelli’s CEO Marco Tronchetti Provera. “If he wasn’t a good man, how could I shake hands with him, let alone hold hands with him in this partnership?” Ren told the Financial Times. Ren added that he will give Provera a lot of decisionmaking latitude after the Pirelli acquisition: “I always say to our overseas CEOs that from an ownership perspective I am your boss, but from an operations perspective you are my teacher.” Ren revealed that he had only been to Italy twice but he believes that “creativity and innovation is in its people’s blood”.

Ren Jianxin
Some of the places referred to in this issue

He'll be back: Arnold Schwarzenegger attends Beijing’s film festival

Photo of the Week

In Numbers

56%
The single-day gain in Hong Kong-listed China Resources Enterprise’s stock after its parent announced it would buy back its food, coffee shops and supermarket businesses. This will leave the listed company to focus on beer (it owns the market-leading Snow beer brand).

200 million
Tonnage of farm imports China will consume in a decade’s time, versus 120 million tonnes today. This is the prediction of COFCO’s boss Ning Gaoning, made at a Financial Times conference about commodities.

Rmb59
Average revenue per user for China Mobile in the first quarter of the year, compared with Rmb58 ($9.35) a year earlier. That stems the decline in 2014, when monthly ARPU fell to Rmb61 from Rmb67 in the previous year. The telco operator also announced that it had signed up 143 million 4G users by the end of March.

8th
China’s ranking in the world’s top 10 most censored countries, according to the Committee to Protect Journalists (CPJ). The worst offender is Eritrea, followed by North Korea, Saudi Arabia, Ethiopia and Azerbaijan. In February, Reporters Without Borders ranked China the 5th worst in its World Press Freedom Index.

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