The rivals

Clicks and mortar: how Alibaba’s Ma and Wanda’s Wang are going head-to-head
Frenemy at the gates
The biggest corporate rivals in China are increasingly Alibaba and Wanda

Richard Neville is known to English historians as the Kingmaker. That’s because in the middle part of the fifteenth century he not only became the second richest man in England, he also held the fate of the crown in his hands. A key player in the Wars of the Roses, Neville earned his nickname when he helped topple the Lancastrian king Henry VI, and replace him with Edward IV. When he subsequently fell out with the Yorkist monarch, his kingmaking tendency resurfaced once more as he restored Henry to the throne. In a measure of his power, he held both Henry and Edward captive in his imposing fortress Warwick Castle.

Fast forward to present day China and a Kingmaker looks to have emerged in the shape of Zhang Jindong. He’s the founder and boss of Suning, an electronics retailer with a vast footprint across China. In the past few weeks he has done deals with both Alibaba and Wanda, two rivals that are seeking to grab a dominant chunk of the country’s consumer spending.

Will it be down to Zhang ‘the Kingmaker’ to decide whether Jack Ma or Wang Jianlin (both have been ranked as China’s richest man in wealth surveys) prevails as the tycoons battle for dominance?

Two titans make a big public bet...
In December 2012 Ma and Wang appeared together on CCTV’s live show Economic Figures of the Year. Ma was in provocative mood, telling China’s biggest commercial property developer that shops and malls were a thing of the past.

“The bad news is that e-commerce will essentially replace bricks-and-mortar,” Ma jokily told Wang. The hard-charging Sichuanese was unimpressed by Ma’s forecast and made a bet that if online consumption had surpassed 50% of China’s total retail volume by 2022, he’d give Ma Rmb100 million ($15.7 million). However, if e-commerce fell short of that ratio he expected Ma to pay him the same amount.

Who is likely to win the wager?
Three years on and it’s clear to Wang that the rapid increases in online spending are hurting sales at physical stores. China Business Herald reports that in the first half of this year the country’s major retailers shut 121 large outlets (such as supermarkets) and 25 department stores. Indeed Wanda has closed 10 of its own underperforming departments stores, with Winshang.com predicting another 45 could also be shut.

Last month Wanda announced it was closing the nation’s largest karaoke chain, Superstar, too. “China’s consumer behaviour is undergoing significant changes, inevitably hurting some large-scale retailers,” Qu Dejun, president of Wanda Commercial, said in a statement.

Over the past decade Wanda’s department stores were important anchor tenants for its Wanda Plaza...
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shopping malls. They helped to encourage footfall (in 2012 around 1.1 billion shoppers entered Wanda’s malls).

However, Wanda’s Hong Kong listed unit can no longer offer the Wanda department stores – held in a separate non-listed vehicle – a cross-subsidy (in the form of below-market rents). This, combined with falling sales – as consumers shop more online – has made the giant stores an increasingly poor business proposition.

Of course, overall the pie is getting bigger, with China’s consumer spending continuing to rise. Data just released for July shows that retail sales grew year-on-year by 10.5%. But the more striking number was that online sales soared 37% in the first seven months of 2015.

The Financial Times this week reported that Alibaba is responsible for “about 70% of China’s retail e-commerce – and accounts for around 8% of total retail sales in the country”. When the two tycoons made their bet e-commerce only comprised 3% of total retail spending.

Then again, it’s not all been going well for Ma either. Alibaba’s New York-listed stock has plunged 50% below its IPO price and this week traded at a new low. To make matters worse the US business magazine Barron’s published an unexpectedly negative article on Alibaba, stating that the stock could fall another 50% because it was reporting numbers that “strain credulity”.

Alibaba released a detailed rebuttal saying the Barron’s article contained factual inaccuracies, selective information and “misleading conclusions”. Still, for a company to be forced onto the defensive about its financials is never positive.

Meanwhile there are also signs that both Ma and Wang have altered their thinking since they shook hands on their mega-bet. Both seem to have come to the realisation that the winning approach won’t be purely bricks-and-mortar nor purely digital but a mixture of both. The new buzz-phrase is online-to-offline (O2O) and both men are looking to rapidly expand their offering in this area. And that is why both have recently courted Zhang Jindong and inked high-profile deals with his firm Suning Commerce.

What were the deals?
Alibaba swooped first. Last month it surprised many analysts when it purchased a 19.99% stake in Suning for $4.6 billion. In return Suning also bought 1.1% of Alibaba for $2.28 billion.

Prior to the transaction Alibaba had just announced that its revenue for the three months ending in June rose 28% to ¥3.27 billion, its slowest growth rate in more than three years.

Local media in China commented that the Alibaba-Suning tie-up looked like the sort of tactical alliance seen during the country’s Warring States period. (Comparison is often drawn between this era of seven battling kingdoms – eventually won by the state of Qin in 221 BC – and the modern day business struggles being fought on smart-phone screens, between firms like Tencent, Baidu, Alibaba, Xiaomi, JD.com, Suning and Wanda.)

The strategic rationale for Alibaba was Suning’s logistics and retail distribution network. Techcrunch pointed out that Suning has 1,600 stores in 289 cities, but equally important is the logistics operation it has built to deliver the items ordered in those shops and online. This is said to cover 90% of China via eight national distribution centres, 57 regional centres and over 1,700 last-mile delivery stations.

This can be combined with Alibaba’s own (less developed) logistics unit Cainiao, with Walter Woo, an analyst with Oriental Patron telling Reuters, “Instead of building the [distribution] network itself, it saves more time through this kind of deal.”

Ma said of the deal: “Over the past two decades, e-commerce has become an inextricable part of the lives of Chinese consumers, and this new alliance brings forth a new commerce model that fully integrates online and offline.”

It marks the end of Alibaba’s asset-light strategy, but Ma thinks the O2O opportunity merits the change of direction. Access to Suning’s physical stores will enable greater after-sales support, and allow customers to pick up purchases. The New York Times reports there is even talk of Alibaba channeling online grocery sales through Suning’s distribution network; as well as Alipay becoming the favoured option for making purchases within Suning stores.

This deal was perhaps less about Wanda from Ma’s perspective than about e-commerce rival JD.com. Like Amazon the latter has invested in a sophisticated in-house warehousing and delivery system. Its efficiency and customer satisfaction levels have even started to eat into Alibaba’s market share in e-com-
merce. To some extent, the investment in Suning was a defensive strategy to nullify JD.com’s perceived speed advantage in delivering online purchases.

But Wanda was soon back on Ma’s radar, as just weeks after his own deal, Wanda became a strategic partner of Suning too.

“It’s a win-win for both sides,” Wang said at the signing ceremony on September 7. This time the main focus was on the news that Suning would open 40 stores in Wanda Plazas by the end of the year (there will be 135 Wanda malls nationwide by December).

(Also heavily rumoured: that Suning might buy control of Wanda’s department store arm.)

However, the agreement will likely irk Ma because Suning and Wanda are also talking about “deepening their cooperation in the development of e-commerce and getting greater traction from combining their online and offline capabilities”. Indeed, in a sign that kingmaker Zhang might be hedging his bets, he said the pact with Wanda will “allow for the two sides to leverage shared resources”.

Nor can Wanda’s e-commerce ambitions be written off by Alibaba. Last year it banded together with Tencent and Baidu – two of Ma’s most formidable internet rivals – to set up a Rmb5 billion e-commerce joint venture (see WiC251).

Ma too is building alliances, of course, primarily with large retailers he’s luring to his Tmall sales platform. In July it was announced that the popular Japanese clothing chain Uniqlo would sell online in China exclusively through a Tmall store. This month Germany’s biggest retailer Metro also signed an exclusive strategic cooperation with Tmall. Also opening joining Tmall is J Sainsbury. The British supermarket group will sell (long-life) groceries.

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**Planet China**

**Strange but true stories from the new China**

**GETTING A HEAD.** A professor at Harbin Medical University has told China Daily that he will soon be in a position to “transplant a human head” via surgery. Ren Xiaoping told the newspaper that it will be “at least two years” before he is able to undertake the first human head transplant in history. He said he will partner with Italian surgeon Sergio Canavero on what is “one of the most cutting edge technologies in the medical field”. The surgery transplants a healthy human head onto the body of someone who is brain dead but whose body is healthy. Says Ren: “If a man with an aging body can replace his body with a young and healthy body, his aging brain will become younger with the new body meaning longer life for the man.” A Russian computer scientist with muscular dystrophy has agreed to become the first patient, reports China Daily, adding that some doctors have raised ethical issues over head transplant surgery.

**Where else are Alibaba and Wanda competing?**

Well, both want to be movie moguls.

The Chinese box office is booming, with some forecasting that revenues will rise 50% this year to yet another record level (Rmb45 billion, or $7 billion). Wang was much earlier into the film business. He has the largest cinema chain in China and bought the AMC movie theatres in the US. He’s also building an $8 billion studio complex in Qingdao, which he hopes will prove to be an ‘eastern’ Hollywood (see WiC211).

Ma too wants a piece of the film action. This month the tycoon was pictured with Tom Cruise at the China premiere of the new Mission Impossible film, of which Ali Pictures was one of the producers. In fact CBN reports that when the Ali Pictures logo was shown after Paramount’s at the beginning of the film, the cinema burst into patriotic applause.

CBN says that Ma sees synergies between his existing platforms and blockbuster film production. His Taobao film ticketing service is one of his successful O2O businesses, while his stake in Sina Weibo allows this social media platform to publicise film releases. Then, of course, Tmall can be used to sell merchandise linked to the film.

In June Ali Pictures opened an office in Los Angeles to look for further film opportunities.

Beijing Business Today points out that Alibaba’s recent purchase of Yueke Software for Rmb830 million has also stretched the firm’s tentacles into cinemas – i.e. Wanda’s domain. Yueke operates the ticketing system most commonly used by China’s 1,700 movie theatres.

**Anywhere else?**

The sports industry is another field where the two tycoons are going head-to-head. And again, Ma is the relative latecomer.

Wang has been associated with sport since the 1990s when he purchased a football team in Dalian, that went on to become the country’s most successful. Earlier this year he bought a 20% stake in Spanish club Atletico Madrid, and acquired the sports marketing company Infront Sports and Media (which holds the World Cup broadcast rights in Asia). Last month Wanda also purchased World Triathlon Corp (the global organiser of Ironman events).
According to PWC the global sports market is currently worth $145 billion, and as WiC has reported, a number of favourable policies in China have recently designated sports as a priority industry. That’s generated a lot of new interest from the business community.

This month Ma established Ali Sports, with the division designed to look after the company’s investments in this sector. The first was the stake bought in China’s top football team Guangzhou Evergrande last year, while the second foray came in May when it was announced that Alibaba would participate in an Rm800 million equity fundraising for online broadcaster LeTV Sports. Ali Sports took a 7.8% stake.

Also investing: Wanda. It bought 11.5% of LeTV Sports.

Now as their empires morph and embrace a whole variety of online and offline services, their original bet – due to be decided in 2022 – may be quietly forgotten by both men.

So are Wang and Ma ‘frenemies’?
When Wang decided to give a speech this year on his investments in the film industry, he chose to do so in Hangzhou, in a spot not far from Alibaba’s headquarters in Xixi Park.

The choice of venue led one member of the audience to ask whether he’d selected it because of Ma. As Zhejiang Daily reports, Wang then tried to rebuff what he called was a “widespread misunderstanding” that he had a “hostile relationship” with the Alibaba founder. “We are good buddies privately,” he claimed.

Despite their business rivalry, observers see ample room for the two tycoons to cooperate. For example:
by wooing Hollywood. “Although Ali Pictures and Wanda Cinemas have a competitive relationship, there are many opportunities for cooperation between the two sides. Both are in a stage that allows the coexistence of cooperation and competition,” deputy dean of Peking University Cultural Industry Research Institute, Chen Shaofeng, told Beijing Business Today.

Jiang Jiongwen, a professor at the business school CEIBS, also notes that some of the most influential private-sector tycoons have been working closely together in recent years despite their obvious commercial rivalries. He cites the afore-mentioned Wanda, Tencent, and Baidu e-commerce joint venture Wanhu. “Various partnerships like this have caused smaller retailers and SMEs to feel a serious sense of threat,” Jiang wrote in a piece for Sina Finance. He added that while competition law in the West tends to prevent alliances between online giants such as Facebook, Twitter and Amazon, the Chinese government has been quite free-handed in this regard. “Important [consumer] data is firmly controlled by a small group of businessmen,” Jiang wrote. “The growing monopolisation of data in China is a very serious issue.”

If anything, the coalitions that Suning has forged with both Alibaba and Wanda suggest that this trend is accelerating. Perhaps Zhang Jindong is calculating that by alloying himself to this ‘big data’ revolution he will be able to reach his stated target of growing Suning’s annual sales to Rmb300 billion by 2020. It will be interesting to watch how this would-be kingmaker plays his very own ‘game of thrones’ with Ma and Wang... ■

Minions meet chengguan
A film about yellow organisms that evolved at the dawn of time may not sound like a blockbuster concept. But Minions has proven a huge hit, and that includes in China where it debuted in cinemas this week. The cartoon grossed Rmb124 million ($19.5 million) on Sunday, the biggest-ever opening day for an animated film in China. “The Minions madness descends on China,” Xinhua noted, adding that Minions could even break the Rmb955 million box office record for an animation set last month by Monkey King: Hero is Back.

Also going viral on social media are photos of two men dressed up as Minions while selling bananas on a busy street. The fruit vendors soon got the unwanted attention of chengguan, the law enforcement unit that patrols local markets. The hawkers tried to win over the officials with their cute clumsy look, but, being unlicenced, were nevertheless told to pack up and leave.
Chengdu wins

The major news items from China this week were...

1 The Milken Institute, a US-based think-tank, has listed Chengdu, the capital of Sichuan province, as having the best economy amid all of China’s cities. According to the institute, Chengdu got top place because of its “human capital, central government support, established industries in high-end aerospace and aircraft design, and a more recently developed electronics manufacturing sector”. Second and third place were held by Shanghai and Tianjin, whilst the capital, Beijing, lagged behind at thirteenth. The report suggests consumption and technology will replace infrastructure investment as the focal point for urban development.

2 President Xi Jinping is due to make his first state visit to America since his inauguration in 2012. Ahead of the visit, Xi’s special envoy Meng Jianzhu arrived in the US last week to discuss ongoing tensions about accusations of cyber crimes. Speculation whether the US might issue sanctions on China prior to Xi’s arrival were rebuffed by an unnamed US official. President Xi’s landmark visit will first see him attend a roundtable discussion between US and Chinese business executives in Seattle, before being met by President Obama at the White House next Friday. No news yet on Donald Trump’s offer to buy Xi a Big Mac.

3 The Beijing liaison office director in Hong Kong, Zhang Xiaoming, courted controversy this week when he claimed that Hong Kong’s Chief Executive has “overriding power over executive, legislative and judicial organs”, adding that the separation of powers “does not suit Hong Kong”. According to Zhang, the separation of powers only applies in sovereign states. The leaders of opposition parties came out to decry the comments, whilst the Chief Executive, Leung Chun-ying, remained silent until Tuesday when he spoke in support of Zhang’s verdict. Leung said that the Basic Law of Hong Kong was never intended to embody the Western model of a separation of powers, citing Deng Xiaoping’s pre-handover concerns as evidence.

4 Doubts are (again) being cast over China’s economic growth figures. Reports released by the government suggest that economic growth was on target at 7% in the second quarter, but some foreign analysts speculate that the real figure is closer to 5%. Growth for the third quarter seems set to fall behind 7% as well. The year-on-year figures for factory production and fixed-asset investment in August came in weaker than anticipated, at 6.1% and 10.9% respectively. However, retail sales rose 10.8%.

5 China’s hunt for the guilty parties behind the recent stock market rout took a further step on Wednesday as the nation’s anti-graft body announced that Zhang Yujun, an assistant chairman at the China Securities Regulatory Commission, was under investigation for “serious disciplinary violations”. Zhang is the most senior official from the CSRC to be investigated in relation to the A-share market’s plunge. It follows three recent investigations of senior executives at Citic Securities, China’s largest brokerage. ■
Spitting mad
Qihoo’s Zhou fires back in latest ‘saliva war’

China’s netizens are no strangers to their country’s tycoons trading derisory messages on social media. The Xiaomi-LeTV rivalry is a good example. The smartphone maker and the internet media firm have been expanding into each other’s territories. Both companies have signalled an intention to make electric cars too. Hence there were heated exchanges earlier this year, leading to the unexpected accusation from LeTV’s founder Jia Yuting that his counterpart at Xiaomi, Lei Jun, had “a serious crush” on him (see WiC268).

Now there’s an even fiercer “saliva war” (the term used by netizens for such disputes). This time it involves M&A agreements between Qihoo 360, its mobile phone partner Coolpad and (again) LeTV.

The love-hate triangle was created when both Qihoo, a New York-listed software provider, and LeTV announced they would enter the smartphone market. Both identified handset firm Coolpad as an important partner.

Qihoo invested $409 million in a joint venture with Coolpad last December. But before Qiku – as the joint venture was branded – was able to launch its first devices last month, the relationship between the two appeared to have soured. That’s because the management of the smartphone maker agreed to sell an 18% stake in Coolpad to LeTV for about $350 million in June.

Qihoo made no secret of its displeasure. For $409 million it had taken a minority stake in a subsidiary of Coolpad. But LeTV spent $350 million to become the second-biggest shareholder at parent level.

Regular WiC readers will be familiar with Qihoo’s chairman and chief executive Zhou Hongyi. The 45-year-old loves to pick a fight with his larger rivals (see WiC178 for his tussle with Baidu, or WiC147 for his legal battle with Tencent). So not surprisingly, he’s been more than willing to poke his rivals in the eye over the Coolpad-LeTV deal.

Before Coolpad had even announced its tie-up with LeTV, Zhou was messaging his WeChat friends warning that he would “[expletive] straight back” anyone trying to “screw” him, according to the Wall Street Journal. Addressing questions about Qihoo’s own relationship with Coolpad, Zhou was a little more oblique in his disdain, lamenting that “there is no love in Dongguan” (a Chinese city known for its prostitution trade).

Coolpad has tried to calm things down and its chairman Jiang Chao wrote several pieces on weibo suggesting that Zhou had been well informed of Coolpad’s decision to court LeTV.

To this claim Zhou’s riposte opted for analogy rather than personal abuse: “The little brother tells his big brother that he is going to fire a nuclear missile. The surprised big brother asks ‘When is the launch time?’ But the little brother is already counting down: 5, 4, 3, 2…”

At a more practical level Qihoo said it would exercise a put option that requires Coolpad to buy out Qihoo’s entire 49.5% stake in Qiku at twice its fair value, that is to say, $1.485 billion.

The Wall Street Journal says that the dispute reflects the simmering tensions in the smartphone market, which is plagued by plunging prices, slowing sales and too many brands. But the Economic Observer wonders if the row doesn’t say something more about business life in China. Zhou’s belligerence may not help his case but the newspaper hints at a sympathetic ear for some of his complaints. “The dispute in 2011 over Alipay’s ownership stoked heated debates. And now this latest commercial battle [between Qihoo and Coolpad] has again got the world worrying that Chinese entrepreneurs don’t respect the spirit of contracts,” it suggested, referring to events four years ago when Jack Ma transferred ownership of Alipay into a separate company that he controlled, amid disagreements with Alibaba shareholders Yahoo and Softbank (see WiC112).

Could a truce be in the offing in the latest row, however? Thepaper.cn reports that Qihoo and Coolpad have been in talks to sort out their differences. “Even if it has been rainy and cloudy, eventually we will see the sun,” Coolpad’s Jiang recently wrote on his weibo.
On the waterfront

*Shanghai Port holds consignments to ransom*

The Grand Canal is the world’s largest man-made waterway, stretching over 1,000 miles down the east of China, from the capital, Beijing, to its terminus in Hangzhou. It was an early lifeline of China’s shipping industry, carrying much of the Middle Kingdom’s inland commerce. But its commercial value began to fade in the Qing Dynasty, as steam-powered sea transport – much of it state-owned or foreign – began to thrive. Many private firms went bust. Thousands of jobless sailors became gangsters or joined armed rebellions.

In recent years, the shipping industry in China has again come under threat – although this time from excess capacity and dwindling economic growth – and once more it seems that smaller private-sector shipping firms have suffered the most.

On August 26 this year, Nantsing Container Lines – the biggest privately-operated domestic shipping company in China – told its staff that owing to the “influence of the depression in the domestic shipping market”, the company was temporarily suspending operations.

The plight of Nantsing is typical, National Business Daily reports. When demand for domestic shipping was high, shipping bosses clogged waterways with ships, amassing ever-bigger fleets. Now, thanks to oversupply and a lack of consolidation, these local firms face fierce competition and falling shipping rates.

Whilst private companies such as Nantsing have suffered the worst of the turbulent market conditions, some state-owned shipping firms have been provided with additional ballast by the government.

In March this year, Reuters revealed that the authorities had provided three state-owned shipping companies with close to Rmb2.4 billion ($375 million) in subsidies to keep them afloat. The relief was offered despite promises they would stop aiding industries facing over-capacity.

In an interview last week with CNBC, the chairman of Singapore-based IMC Pan-Asia Alliance Group, Chavalit Frederick Tsao, claimed that the slowdown of the Chinese economy might actually be good for the shipping sector, because it would remove “those crazy people who do not belong in the industry”.

Meanwhile the troubles of Nantsing have had a knock-on affect for Shanghai International Port Group (SIPG), a state-owned port operator. When Nantsing temporarily terminated operations, it defaulted on payments to be made to SIPG. As National Business Daily reports, in response to this threat of lost revenue, SIPG seized over 1,300 of Nantsing’s shipping containers, and began ransoming the contents.

According to reports, SIPG was charging consignors – the rightful owners of the container content – Rmb2,000 to retrieve the goods stored in a small container, and Rmb3,000 for access to larger containers, plus a deposit fee on each. Upstream at Taicang port, which is a member of the Shanghai International Shipping Centre, prices were even higher, at Rmb15,000 and Rmb20,000 respectively.

A Shanghai court ruled earlier this month on behalf of a group of over 20 consignors, stating that SIPG was only entitled to seize Nantsing’s containers, not the goods within. It added that if the consignors came to collect their goods, SIPG should proceed in “accordance with the law”.

Shanghai-based lawyer Yan Yiming explains that the consignors of the goods and Nantsing had an entrusted relationship, but the ownership of the shipments never entered Nantsing’s hands. Therefore, creditors have no right to seize the goods stored inside Nantsing’s containers even though it defaulted.

Although SIPG has acted above the law, its approach may be working. The China Business Daily reports that many of the consignors embroiled in the affair in Shanghai have already paid SIPG’s levies to receive their shipments, showing a lack of faith in the legal system’s ability to safeguard their interests.

It is not unprecedented for state-owned ports to operate in a high-handed manner, and disregard rules and laws.

For example, the explosion on August 12 in the port of Tianjin revealed not only the strength of the state-owned Tianjin Port Group’s grip on the area, but also its willingness to circumvent safety rules regarding the storage of highly dangerous chemicals (see WiC293).
The past few years have not been kind to Taiwanese smartphone manufacturer HTC. After creating the world’s first Android smartphone in 2002 the company prospered for almost a decade, building up a global market share of 10.7% by 2011. Since then it has come crashing back down to earth.

According to Gartner data, HTC had a market share of less than 2% during the second quarter of 2015 after being squeezed by Apple and Samsung at the high end of the market (with respective market shares of 14% and 21.7%), as well as by Chinese vendors such as Xiaomi and Huawei at the lower end (5.3% and 8.9%).

The company’s recent second quarter results did not make happy reading. Revenues dropped 49% year-on-year to NT$33 billion ($1.02 billion), resulting in an operating loss of NT$5.1 billion. And the third quarter is shaping up to be more depressing, with sales down an even steeper 53% year-on-year in August to NT$6.89 billion.

Unsurprisingly, HTC’s share price has taken a pounding. Between February and late August, it lost almost 75% of its market value and was dropped from the Taiwan TWSE 50 index. At one point last month HTC was only worth NT$33 billion, which was less than its cash pile at NT$47 billion, an indication that investors believed its brand to be worthless.

To be fair, a lot of companies were oversold during the recent stock market rout, but analysts have warned that HTC’s cash reserve will be gone in three years unless the company does something drastic.

In March HTC responded by replacing CEO and co-founder Peter Chou with Cher Wang, also a co-founder and a previous chairwoman. She has since announced a restructuring, which involves 2,500 job losses (about 15% of the total) and a 35% reduction in operating costs.

In future, the company plans to be more focused on profitability rather than building scale. The new goal: to create a niche at the very top end of the smartphone sector, while moving aggressively into new technologies such as virtual reality.

So far this plan has received a thumbs-down from analysts. The financial pruning may stabilise the share price, they say, but HTC is facing too many structural impediments and it will continue to get squeezed in an increasingly competitive and mature smartphone market.

Berenberg, an investment advisor, has always taken a particularly negative stance on HTC on the basis that the horizontal structure of the Android smartphone industry makes it very difficult for hardware manufacturers like HTC to differentiate themselves from their competition. Apple, by contrast, controls its own ecosystem (i.e. the operating system, the App Store and iCloud).

And yet, while the headlines and analysts reports remain resolutely negative, the stock price has jumped almost 60% over the past three weeks. Is this a dead cat bounce in response to the job cuts, or signs that HTC is on the turn?

At the end of September, HTC is scheduled to launch its new smartphone, the HTC A9. It is rumoured to be one of the most powerful of its kind with a 10-core Hello X20 processor and 4GB RAM.

HTC has also been investing heavily in virtual reality as the game industry’s new technological frontier. Naysayers highlight that all the big tech companies are doing the same and say it will take years before the technology goes mainstream. Facebook, for one, paid $2 billion for virtual reality developer Oculus Rift last year.

However, tech websites are pretty unanimous in their view that HTC’s virtual reality headset, or HTC Vive, is superior to the ones being developed by Oculus Rift and Sony via Project Morpheus.

All three are scheduled to go on general sale early next year. But whereas Oculus Rift and Project Morpheus are both armchair based, HTC Vive enables users to walk around, immersing themselves in a virtual world. To make sure users don’t stumble into a very real piece of furniture, the headset is also equipped with sensors.

HTC has developed the product in a joint venture with Valve, one of the world’s leading gaming companies, and is also developing content with Google, Lionsgate and HBO.

The company’s weak smartphone sales reduced it from hero to zero. Can the new Vive brand do the opposite and help HTC to revitalise?
Schooled by Singapore
Is Sasac going to be transformed into a Chinese version of Temasek?

Before Deng Xiaoping visited Singapore in November 1978 the Chinese press often referred to the city-state as a “running dog of American imperialism”. But when Deng met the Singaporean leader Lee Kuan Yew that year they bonded straight away. A month later Deng began to reveal his bold vision for economic reforms. In a swiftly-revised assessment, China’s media began praising Singapore as “a place worth studying”.

With a population of just five million (versus China’s 1.4 billion), Singapore has remained a source of inspiration for Chinese reformists. In November 2013 – on the eve of the Party’s all-important Third Plenum (see WiC217) – the Development Research Centre (DRC), a key think tank under the State Council, cited Singapore’s Temasek as a model for further reform of Chinese state firms. And the Temasek model has become a hot topic in the media again this week, after the State Council announced a long-awaited directive on further restructuring the state-owned enterprises (SOEs).

One of the talking points is whether Sasac, the central authority which controls the 112 biggest state firms, will adopt more of an arms-length approach like Temasek.

Temasek has investments in 45 government-linked companies in Singapore, with its portfolio of firms constituting about 47% of the value of the local stock market. This makes it look rather similar to Sasac as a heavyweight influence, although a key difference is that the Temasek model requires that the state distances itself from the management of the enterprises concerned.

By contrast, Sasac is a much more active shareholder. “Sasac sets out to protect and increase the market value of state-owned assets. Over the years it has been exerting control in the day-to-day running of SOEs. The Temasek model has never been adopted,” Sina Finance notes.

This could be set to change, the Securities Daily suggests, with a new plan to establish an extra bureaucratic layer between Sasac and the state firms. “Sasac will no longer directly intervene in the running of most SOEs under the new three-tier system,” the newspaper predicts.

Whilst the potential powers of these holding firms are unclear, the proposals imply that Sasac is going to have its authority curtailed. There has long been a sense that it is dragging its heels on privatising its ownership stakes, while Zhao Changwen, a director of the DRC, told the Global Times that the new structure will help to sort out lingering problems like overcapacity in state-dominated sectors such as steelmaking.

Acting like fund managers “they will buy and sell equities in such a manner that state capital can enter or exit specific industries,” Zhao predicts. “Some state firms will be cleared out, some will be restructured and merged, and some new ones will be created.”

According to WIND, a local financial information provider, there are 1,040 listed companies in China either controlled by Sasac or by other state bodies. They carry a combined market capitalisation of Rmb25 trillion ($3.9 trillion) or more than half of the local stock market. (If anything, the number looks set to grow as more provincial and local governments float their assets in the years ahead; see WiC234).

It is not known how many of these Temasek-style holding firms will be created. But the reform blueprint suggests that the SOEs will be divided into two broad groups: ‘commercial’ and ‘public welfare’ (the latter likely to include utilities such as telecoms and energy).

What about the much-touted process of ‘mixed ownership’ reform? The document says that state firms will be allowed to bring in private investors to help diversify their ownership. And Xinhua reports that the plans intend to encourage private investment, and that “decisive results” are expected by 2020. However, the state news agency added that the government wouldn’t be pushing the SOEs too aggressively nor setting a detailed timetable for how the reform process should advance. Instead, changes would be given the go-ahead “only when conditions were mature”. □
Building bridges
What does Russia’s slow progress on a transport link to China reveal?

In 1868, Russia launched the Manza War. The conflict was intended to purge the territories Russia had acquired from China of the Chinese people still living there. In Vladivostok, the Russians attempted to shut down local gold mining operations and evict the Chinese that ran them.

Today, the authorities in Vladivostok have had a change of heart, and are instead looking to entice Chinese visitors and investors to a land they were once cast out of.

On September 4, Vladimir Putin opened the first Eastern Economic Forum (EEF) in Vladivostok, one of the 15 areas that he granted “free port” status in July. The Russian president said the forum was to offer “potential partners genuinely exclusive opportunities and incentives in the far east” of Russia.

Putin also boasted of the projects that Russia had already co-financed with foreign investors. One showpiece is the Nizhnelenskoye-Tongjiang Bridge, or the Amur Bridge. In his EEF speech Putin claimed that Russia had taken the decision on funding for construction on the bridge linking Russia and China.

However, the view from the Chinese side has been very different.

The bridge in question crosses the Heilongjiang River, known as the Amur River in Russia, and connects Tongjiang in Heilongjiang with Nizhnelenskoye in Russia.

The Chinese and Russian government agreed to co-invest in the 2,215-metre piece of infrastructure, with China responsible for financing and building up to 1,900 metres of the bridge in Chinese territory.

Recent reports from Chinese media have raised concerns as to whether Russia will follow through on its own commitment.

According to website Guancha, Chinese contractors have largely completed their 1.9 kilometre section of the bridge but construction stops abruptly at the other side of the river, as their Russian counterparts have yet to begin work.

A Global Times reporter used a telescope to take a closer look at what is happening on the Russian side last month. The finding? No one is there except a scarecrow.

Sina Finance reports that discussions regarding the bridge were first initiated over 20 years ago, but construction only commenced in 2013. Since that time, Xi Jinping has launched his “One Belt, One Road” initiative and in 2014 bolstered it with a $40 billion investment fund. According to iFeng.com, Russia has received investment from this fund, partially to help it complete the bridge, but has yet to clarify what portion will be used in the project.

Another Chinese entity is hoping things will go more smoothly with its own punt on Vladivostok. In this case the investment is in a new casino, with Macau gaming mogul, Lawrence Ho, its primary investor. According to the Financial Times, the management of the new Tigre de Cristal casino expects Russians to account for 80% of the venue’s footfall, but for Chinese money to constitute 80% of the yield, indicating a major bet that Chinese high-rollers will arrive to gamble in Vladivostok. But even this casino project was delayed (twice) as the Russian bureaucracy failed to deliver permits, forcing construction to stall.

This explains the growing impatience on the Chinese side. The governor of Heilongjiang, Lu Hao, has even complained that Russia’s lack of resolve to complete infrastructure projects is what infuriates Chinese investors.

The Amur Bridge is designed to have an annual cargo capacity of 21 million metric tonnes, and it is estimated that it will save $6 per tonne on the current cost of traversing the border, with investors seeing a positive return on their money seven years into its operation.

But with Russia yet to begin work on its portion of the bridge, that wait might be a little longer. Currently the Amur project stands as a powerful warning of what can go wrong in Sino-Russian partnerships.
Changing channels

Newcomers set to shake up TV landscape in Hong Kong

Hong Kong’s free-to-air TV operator TVB is sometimes known locally as “CCTVB”. This is partly a mocking reference to China’s state broadcaster CCTV (as TVB – which stands for Television Broadcasts Limited – enjoys a similarly dominant position in its tiny broadcasting kingdom). But it also reflects a view that TVB takes a pro-Beijing line on many political issues.

Hongkongers may soon have an alternative viewing option if rumours are true that LeTV (or Leshi) will enter the local market. WiC readers will be familiar with the media firm as LeTV has been making a splash with its ambitious plans to produce Hollywood blockbusters, make smartphones and build electric cars (see WiC268). Now LeTV’s 42-year-old founder Jia Yueting has his eye on Hong Kong too, with a strategy that seems to be based on sport. According to reports in local newspapers, the online video-streaming firm looks to have won exclusive rights to broadcast English Premier League soccer matches in Hong Kong for three seasons starting next year.

Adding credence to the speculation, LeTV put up a picture of a lion’s head (the logo of the English Premier League is a lion) on its weibo account with the caption “Big News on September 22. See you in Hong Kong”.

Then its marketing team had a bit of fun on the company’s Facebook page, posting a message with the hashtag: “I want resolution that’s high enough to count Rooney’s hair”

Now, TV, controlled by Richard Li, the son of Asia’s richest man Li Ka-shing, won the current Premiership deal for Hong Kong for a fee said to be close to $200 million. But the speculation is that LeTV is prepared to pay at least double that to secure the rights. Reuters has reported that LeTV has bid between $400 million to $600 million.

This investment could be dwarfed by the plans of another mainland tycoon, Si Rongbin, who last week agreed to take a controlling stake in Asia Television (ATV), the terrestrial TV competitor of TVB in Hong Kong. The Shandong-based businessman, who is little known in Hong Kong, has promised to spend HK$10 billion ($1.28 billion) to revive the debt-ridden broadcaster. (The takeover needs to be approved by the Hong Kong government.)

ATV has been in this position before. Wong Ching, another low-key tycoon from the mainland, acquired it in 2010 and promised to create “Asia’s CNN”. But the channel has fallen further behind TVB in market share and financial constraints have reduced it to showing 1980s beauty contests during prime time.

Hongkongers view the shifting landscape with mixed feelings. LeTV’s ambitions may be more about expanding into other regions outside mainland China. But another concern about the bids, according to the Ming Pao newspaper, is that an influx of “pro-Beijing red capitalists” may want to help the Chinese government exert more influence over the former British colony. “How much ‘Hongkongness’ can be retained if our producers aim to make shows for an audience beyond the city?” concurs the South China Morning Post.

On the other hand, couch potatoes may like having more choices (the only show in town is TVB unless they subscribe to pay-channels). “Regardless of how the TV revolution pans out, the big winners will be consumers, who can enjoy high-quality home entertainment after slaving away all day to pay the bills and exorbitant rent. And that can’t be bad a thing,” the SCMP added.

On the subject of greater choice: LeTV and a resuscitated ATV wouldn’t be the only newcomers to the city’s television industry. Internet-based streaming service Netflix also has Hong Kong in its sights. The American firm said this month that it plans to launch in the city in early 2016, as part of a move to expand its global coverage.
Still forking out

Top Western restaurants say they’re full even as China economy slows

luckily for high-end restaurateurs in Shanghai, the stock market turmoil seems to have done little to dampen appetites for quality nosh in elegant eateries.

At least this is the view of Australian-Greek chef David Laris, who, 12 years after opening his first venture in Shanghai, and many more since, is among the most celebrated Western chefs in China.

His restaurants, past and present, have amassed over 30 accolades. His first, Laris at Three on the Bund, got 17 awards. Another of his venues Le Sheng has won Best Shanghai restaurant for the last two years, while 12 Chairs, The Fat Olive, and Downstairs with David Laris have all received tributes.

His also co-hosted an online cooking show with local celebrity Sarah Zhang. Dining with David & Sarah was geared toward the Chinese audience and featured his signature dishes with easy-to-follow recipes. Now he has 62,300 weibo followers (by comparison, Jamie Oliver has 7,400 and Gordon Ramsay has 1,800).

Laris has another six restaurants in the pipeline in Shanghai, Kunming, Chengdu and Hangzhou, and seems unperturbed by the summer’s stock market turmoil. He is now branching out into boutique hotels through Cachet Hotel Group (CHG), a Hong Kong-based company where he is chief creative officer.

Breaking into China has not been easy, says Laris. Back in 2003 when he first launched Laris at Three on the Bund, the restaurant was practically empty for the first three months. Of Chinese cities, Shanghai is arguably the most cosmopolitan but Western fine dining options were few.

“As a foreigner it was insanely difficult to open in China. It took a year and a half to get regulatory sign-off and six months to get electricity,” he recalls. Laris added that he was lucky to have local partners at the time, the ultra-wealthy Lim family who “also wanted to change the game in China”. They invested approximately $4.5 million in the 2,000 square metre fit-out – which included a massive brass-encased bar in the dining room, a room dedicated to chocolate and a seafood station.

“It was the first freestanding contemporary dining Western restaurant on that scale in China, and for a long time, no one got it,” he recalls. Laris had come straight from London where he was heading up Sir Terence Conran’s flagship restaurant.

“I was doing food nobody had ever seen before. My partners were worried but I had to say, trust me.”

All of a sudden there was a tipping point and “the floodgates opened”. Laris reckons his success lay in the fact he kept faith and “didn’t dumb it down for the China market, as others were doing”. A growing middle class with a greater appreciation for Western tastes, combined with food contamination scares and a new preference for imported ingredients, helped. At its peak Three...
on the Bund turned over Rmb45 million ($7 million) a year.

“I think we did fundamentally change the way people thought about dining, and China was ready for it,” explained Laris. “The hotels were doing hotel food and the local places were doing Chinese food. There was a call for something different and authentic. Our clients were starting to know their wine, their food, as they were travelling more. That upper echelon has grown into a big market, and now the middle-income market has enough global knowledge to want a special meal at a Western restaurant too.”

Nowadays take an evening stroll down the Bund and it’s a different story. International Michelin-starred chefs are jostling for space, with the likes of British chef Jason Atherton’s Table No. 1, French chef Paul Pairet’s Mr & Mrs Bund and Ultraviole, and New York-based chef Jean-Georges Vongerichten’s Mercato, all reporting waiting lists for a table. Bistro Franck is the latest newcomer and is hailed as the best French food in the city.

Mindful of the competition, Laris has now taken a different tack under CHG. The approach is to bring boutique hotels and trendy restaurants to newer markets like Kunming, Hangzhou and Chengdu, as well as developed markets like Hong Kong where he just launched steak restaurant Porterhouse.

“Nowadays in Shanghai or Hong Kong you have to invest a lot to stand out. In places like Chengdu which are up-and-coming, you simply have to bring an international standard, and you’ll kill it.”

The ongoing austerity drive and recent stock market volatility have not hurt his operations. “We’re not really feeling any pain at all. I was in China during SARS, then the economic crisis in Asia in 2005, and now this, so I’ve seen the market fall and spike many times. Restaurant bookings aren’t usually impacted, people still have to eat.”

As for the future, “I think the world should be in a good place, come end of 2016.” He should hope so too. Between now and then CHG is opening a host of restaurants and hotels in China. “The currency devaluations should all settle down by then, it’s a cycle.”

Michelle Garnaut runs a rival Shanghai-based hospitality business. She operates M on the Bund, The Glamour Bar and Capital M, and this month launched a chic cocktail bar called Glam.

“Overall the F&B industry is still pretty positive in Shanghai and the volatility and currency devaluations haven’t had much effect on us,” agreed Garnaut. “The whole Bund area remains one of the most visited spots in Shanghai, seeing thousands of visitors daily, ranging from a steady base of local and loyal customers who keep coming regularly, to regional, China-wide and international tourists and business people.”

Against the backdrop of roiling markets that knocked trillions off the value of Chinese shares, Laris and Garnaut might sound overly sanguine. But Andrew Hendry, Asia managing director of fund manager M&G Investments, concedes that certain consumer sectors in China could emerge from the bloodbath unsathed. High end dining is one of them.

Says Hendry: “In times of severe financial stress there are certain consumer sectors which actually improve. People tend to cheer themselves with little luxuries like designer lipstick or a nice meal out, but cut down on the big-ticket items. Good high-end Western restaurants in China are still relatively scarce, which could mean this niche will weather the storm.”
The smaller screen

*Online ‘influencers’ can earn more than film stars*

You know you’ve made it when Harvard Business School asks to write a case study about you. But for Chiara Ferragni, 28, the story started in 2009 with a fashion blog called The Blonde Salad. Since then she has amassed millions of followers on Instagram and Facebook. Trading on her social media clout, she now owns a publishing company, an e-commerce store and even sells her own line of footwear.

Ferragni prospers in the world of “high-low” fashion, making money as an ‘influencer’ by offering a window on her glamorous but supposedly accessible lifestyle. The best of these fashion bloggers often branch out into their own clothing lines too.

In China, several weibo celebrities are using social media in a similarly entrepreneurial way. Online giant Taobao revealed recently that of the top 10 sellers of women’s fashion on the e-commerce platform, seven are operated by popular personalities on weibo.

Some are so successful that they are surpassing movie stars in earning power, the Global Times gasps.

Take Zhu Chenhui, the rumoured girlfriend of Wang Sichong, son of China’s richest man Wang Jianlin. She has been operating a virtual shop on Taobao since 2011. And as of the first eight months of this year, the store – room 209 – had reached Rmb200 million ($31.4 million) in sales, says Western Metropolis Daily.

Assuming a profit margin of around 45% – Taobao claims that this is an industry average – Zhu could make Rmb150 million by the end of this year, an industry observer told the newspaper. That may even match the earning power of Fan Bingbing, China’s highest-paid movie star.

So why is Zhu so successful? Her weibo posts typically feature personal snapshots like selfies or pictures of food. Occasionally she offers glimpses of her luxury lifestyle (Hermes handbags are a favourite) and her travel schedule (she’s in Los Angeles this week). A photo posted on her Taobao virtual shop this week shows her ready to catch yet another flight (see photo above).

Such self-promotion appeals mostly to young, brand-conscious women. And with such a receptive audience, Zhu uses her weibo as a marketing channel to plug her products. She is usually pictured wearing her own merchandise in weibo posts and she frequently reposts messages from fans who rave about how much they like her products.

When Zhu showcases a new outfit on weibo it often becomes one of the best-selling items that day on Taobao.

Zhao Ruohong, who has 290,000 followers on weibo, similarly exploits her own popularity on social media to promote her Taobao shop High Heels 73 Hours.

Like Zhu, the Shanghai socialite posts beautifully framed images with flowery captions designed to entice a younger generation of consumers.

But she’s not just offering an aspirational lifestyle. Zhao is relatable too – she likes to poke fun at her weight, as well as her obsession with all things chocolate (despite being stick-thin, TMT Post adds).

That strategy has struck a chord with online shoppers. Even though shoes on Zhao’s Taobao store retail for Rmb1,000 per pair (relatively steep for most middle-class consumers) her designs sell out soon after she plugs them.

Like other weibo influencers, Zhao is generating sales without spending very much on marketing.

Notably, few of these influencers trade off backgrounds in the entertainment industry.

“Our fans are used to going on our weibo page every day. They like to follow our lives, even down to the trivial stuff. In fact, they think we are more real compared with movie stars. We are more relatable and they aspire to be us,” Zhao Daxi, another weibo personality-turned-entrepreneur, told TMT Post. The most zealous fans tend to be women in the 18-23 year-old age bracket.

For some of this new breed of businesswoman, setting up a virtual store on Taobao is only the first step to commercial success. Chen Xiaoying, who has 240,000 followers and operates the e-commerce fashion outlet Jupiter Concept, is already looking to open her own bricks-and-mortar store in Paris.

Why France? “More and more Chinese tourists are going to Paris. So opening a bricks-and-mortar store there is beneficial for successfully building my brand image,” she told TMT Post.
Worst of the worst
Why China’s answer to the US movie Top Gun turned out to be a disaster

The Pentagon has occasionally turned to Hollywood for a bit of pizzazz. In 2011, for example, the American military struck a sponsorship deal with the producers of X-Men: First Class. The goal: to convince recruits that they could live out their superhero fantasies on the battlefield.

But the template for the military’s cooperation with Tinseltown was forged 30 years ago by Top Gun. That film generated nearly $350 million at the box office but as far as the top brass was concerned it was an even bigger hit in terms of the boost it gave to the military’s image. The fighter pilot classic made the military lifestyle look so cool that the US Navy even set up recruitment desks at theatres playing the Tom Cruise film. “It turned the Hollywood-Pentagon relationship into a full-on Mav-Goose bromance,” the Washington Post recalled.

Since then Top Gun’s martial machismo has crossed the Pacific to China in some rather unexpected ways.

Four years ago the state broadcaster CCTV ran a report about a training exercise by the Chinese air force, with plenty of aerial dogfights. But eagle-eyed viewers were soon pointing out that the coverage had incorporated the final combat scenes from Top Gun itself. (CCTV quickly deleted online access to the item, and it has never commented on whether it borrowed the footage).

Then last year, the state-owned weapons maker AVIC produced another video which seemed to have been heavily inspired by scenes from Top Gun (there was even beach volleyball). It was made “to attract more young people to join the country’s development of aircraft carriers,” the Global Times explained.

So it was only a matter of time before China’s full homage to Top Gun arrived at cinemas, which it finally did this month.

Upheaval of Jiawu – like its American predecessor – shows off plenty of military hardware. Pride of place
The original soared at the box office but China’s *Top Gun* got a thumbs-down from audiences

goes to the PLA Navy and its Liaoning aircraft carrier (for more on this vessel, see WiC250). Despite all the maritime tension in the region’s disputed seas over the past year or two, the filmmakers seem to have enjoyed extensive access to the jewel in China’s fleet. The production crew spent at least 11 months filming on the Liaoning, Beijing Evening News says.

As to the plot, the People’s Daily reports it’s a story of “how young men from different historical periods seek true love and take social responsibilities”.

Terrific as this sounds, the film’s marketing people decided to woo audiences with trailers promising *Top Gun*-esque drama. They don’t take too much imagining: plenty of cockpit action, with compulsory scenes of firm-jawed aviators sprinting across the Liaoning to their aircraft (in slow motion, naturally).

The timing of the film’s release looked to be impeccable too, with the Chinese celebrating the 70th anniversary of their victory over Japan in the Second Sino-Japanese War (or the Second World War to most non-Chinese). In fact, the title of the movie resonates more with memories of the First Sino-Japanese War of 1894, generally known in China as the War of Jiawu. That particular conflict ended in a dismal defeat. But no matter – patriotic sentiment is on a high this month, with *Upheaval of Jiawu* opening in cinemas during the same week as the massive military parade in Beijing.

The film also generated a lot of buzz on social media before it was launched. One popular source of comment was the casting of Zhao Yuying as lead actress. She’d belonged to the PLA’s Second Artillery Corps, serving as a magician in the entertainment unit. (Presumably her combat experience was limited to making the enemy disappear.)

So has *Upheaval of Jiawu* been a sure-fire hit? Surprisingly no. ChinaBoxOffice.com said it made just Rmb160,000 at the cinema (yes you read it correctly, that’s about $25,000), while review website 58921.com is ranking it as the 233th worst grossing movie this year out of 246. Cinema chains have been pulling it from their schedules because interest is so lacklustre and when WiC checked on Monday this week it was hard to find a theatre where it was still showing.

What went wrong? Well, despite its *Top Gun* pretensions, *Upheaval of Jiawu* is much more of a romantic movie. In fact, two love stories are told in parallel: Jiang Haixin (played by Zhao Yuying) is an art school student whose grandmother was a princess during the Qing Dynasty. After flashbacks from granny about how her first love went missing during the 1895 War of Jiawu, the younger Jiang decides to learn more about the conflict. Her efforts somehow lead to her bumping into a handsome officer stationed on the Liaoning aircraft carrier...

The slow-moving romantic plot has turned out to be a deep disappointment for the wannabe pilots who expected to see supersonic dogfights and Japanese planes shot out of the sky by Chinese aces.

“Whose idea was that? Why has a war movie turned out to become a love story?” one disappointed punter asked.

“To the stupid director of this movie, I [expletive used] your sister!” a less-restrained critic raged on the review site Douban.

With word-of-mouth like this, it’s easier to see why the takings for *Upheaval of Jiawu* have been so disappointing. As far as the audience was concerned, the movie clearly didn’t take their breath away...
Ask Mei:
Giving gifts and winning favours

I am a young American living in Shanghai. My Chinese friends and colleagues often invite me for dinners and give me gifts – big and small. Some I like, some I don’t. But what are the basic rules for gift-giving in China?

Gift-giving or 送礼 is a ritual that’s as essential as eating and breathing in China. However, we Chinese normally don’t give gifts just for the sake of doing so. We often have other motives, which can probably be categorised as the following.

The first I’d term “obligatory gift-giving”. Most gift-giving in China falls into this category and the “gift” is typically cash in red envelopes (called Lai See in Cantonese-speaking regions). It applies to everybody and involves basic social relationships, including family, relatives, classmates, colleagues and business partners. With uniformity at the heart of Chinese culture, it’s understandable that we Chinese are terrified to be perceived by our social circles as aloof, anti-social or cheap. And that’s why people tend to give generously for occasions such as weddings, children’s birthdays, graduations, funerals and the Lunar New Year 农历年. I often hear young white-collar workers bemoan that such gift-giving eats heavily into their monthly income, but there is the consolation that they also have the opportunity to be on the receiving end at other points in their lives. Singletons may lose out, though, as wedding gifts tend to be the most lavish.

The second popular category is “expected payback gift-giving”, which can sometimes be classed closer to bribery. Up till President Xi Jinping’s crackdown on corruption started two years ago, people were expected to give gifts to anybody who was providing them with a service – i.e. not only government officials and certain contractors, but also doctors and even teachers. The typical thinking: if I don’t hand over cash to the doctor as others do, he or she may not try as hard to cure me or my family. Or if I don’t buy my child’s teacher a Prada bag, she may pick on my child in school and make his/her life miserable.

The good news is that Xi’s crackdown has started to put a dent in such practices. We just need to see how long it may last.

In cases where you already have a personal relationship, this kind of gift-giving is often more of a calculated trade. The horizon tends to be much longer term, but done in the knowledge a future favour will be needed. For instance, if your Chinese colleagues need your help to sponsor their child’s college applications in the US, they probably won’t ask you upfront. Instead they will treat you to dinners and give you gifts to accumulate favours first (how many depends on what they are expecting from you in return). Then, when they ask for the favour, you will feel obliged to say “yes”.

I would also cite a third category of gift-giving as those relating to avoiding waste or seeking to recycle items gifted to you. This typically applies to older Chinese who have gone through hardship in earlier life and hate wasting anything. They don’t want to throw stuff away, so they’ll try to give things to relatives, friends and neighbours instead (who may or may not need them). The key is they still treat it as a favour to others, rather than as an environmentally-friendly alternative to throwing it away.

Of course, there is plenty of pure and innocent gift-giving in China too, especially among family members and good friends. The message behind this practice is pure appreciation, no different from the West. Among genuine friends the extent of the generosity is huge.

A native Chinese who grew up in northeastern China, Mei attended an elite university in Beijing in the late 1980s and graduate school in the US in the early 1990s. Over two decades she has worked in the US, Hong Kong and mainland China, both in the media and with two global investment banks, where she has honed her bicultural perspective. If you’d like to ask her a question, send her an email at askmei@weekinchina.com
Odd things happen on China’s Internet. A good example: the disappearance earlier this month of a photo showing America’s ‘First Family’ (in it they were watching TV and cheering on the United States women’s football team).

The New York Times says social media sites banned it after netizens forwarded it with a caption joking that even the Obamas were watching Beijing’s military parade on TV—and were delighted by the display.

But what, in fact, was Obama doing when his Chinese counterpart Xi Jinping was inspecting the troops earlier this month (see WIC294)?

As it turns out, the president was trekking through the Alaskan wilderness with British TV personality Bear Grylls, a former soldier who now makes his living showing celebrities how to survive from pine cones and elephant dung.

According to media reports in the US, Grylls did a little better with the culinary options for the Obama episode, serving up a salmon carcass previously pawed by a bear.

Obama’s survival special was filmed during a three-day trip to Alaska. He wasn’t the only visitor: five Chinese naval vessels were in waters a mere 12 miles from the Alaskan coast too. Coincidence? “I wouldn’t call this something we are very worried about,” a Pentagon official told the New York Times, adding that American warships often ply routes close to the coast of China.

Back in China the news of the vessels stirred a little patriotic excitement. “Obama didn’t want to attend the parade so we brought our warships to his doorstep,” someone scoffed on weibo.

“It is a reminder to Washington to repay the money we are owed [US Treasuries],” quipped another.

Others, mind you, preferred to compliment the US president for appearing on the survival show. “Obama did great by not being eaten alive by Grandpa Bei [Bear Grylls’ nickname in China],” one fan suggested.

“Look, Obama is preparing the state banquet for President Xi’s visit,” another joked about the salmon feast.

The Alaskan adventure with Obama looks like a perfect marketing stunt for Grandpa Bei’s business in China too. In mid-October Grylls will bring Survivor Games to Chinese television. A collaboration between state giant Shanghai Media Group and the Discovery Channel, the series will be similar to Running Wild with Bear Grylls with former Olympic gold medallist Liu Xiang said to be on the list of invitees, Shanghai Daily reports.

No one held out much hope that Xi Jinping might be tempted to copy his American counterpart and join Grylls on a wilderness adventure. “Xi might go fishing with Putin, but never with Grandpa Bei,” was the verdict of one netizen.

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**Information Sources**

**Baidu’s boss Robin Li tells Bloomberg he might delist his search engine firm from the US and relist in China. He doesn’t think American investors understand Baidu’s push into online-to-offline (O2O) services, such as delivering meals to homes and offices.**

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**Disappearing act**

“If one day I find that the US market has no hope of recognising our value, and the domestic market truly understands our business, I may do that”

**Baidu’s Li**
A $2.35 million meal: businessman Zhu Ye won the bid to dine this year with Warren Buffett and is pictured next to him at the charity lunch.

In Numbers

5%
The percentage of robotics companies predicted to survive the next two years in Guangdong, according to LXD Robotics. A plethora of firms set overambitious production targets after local authorities announced plans to invest Rmb943 billion in replacing human labour over the next three years.

10.8%
The increase in China retail sales year-on-year in August, marginally higher than the 10.5% anticipated. Analysts watch this trend as a sign a shift towards a consumer-driven economy, rather than an investment-driven one.

Rmb2.428 billion
The box office takings of Chinese film Monster Hunt. This makes it the largest grossing movie ever in China, beating the previous record set by Hollywood’s Furious 7 of Rmb2.426 billion ($380.9 million).

1.4%
The year-on-year drop in new residential property inventory across 35 cities in China. This is the first such drop for 54 months, but it is the sixth consecutive month-on-month decrease.

Rmb73 billion
The estimate of Tianjin’s economic losses due to the twin explosions which devastated Binhai port on August 12.