Clash of the internet kingdoms

In a flurry of recent dealmaking Baidu’s Robin Li looks to make up ground on bigger rivals
When Forbes ranked China’s richest tycoons a year ago, the top three slots were taken by the founders of Baidu, Alibaba and Tencent – the internet giants known locally by the acronym BAT. At that time Baidu’s chief executive Robin Li was the second richest man, just behind Jack Ma of Alibaba but ahead of Tencent’s Pony Ma. However, when Forbes recalculated its rankings last month, Li had fallen to sixth position, with his net worth shrinking almost a third to $10.4 billion (the Ma duo retained their top-three status). The fall in Li’s fortune came despite Baidu’s aggressive push for new revenues in the online-to-offline (O2O) sector. But will it begin to tick up again thanks to a new growth engine: the announcement last week of a joint venture with Citic Bank?

The rivalry between the BAT trio – which are seeking to dominate China’s internet – is frequently compared to a period in the third century when the states of Wei, Shu and Wu battled for supremacy. The era, known as the Three Kingdoms, was a particularly bloody chapter in history, characterised by battles for territory, deadly military innovations and alliances of convenience as the weak combined to repel the strong.

Back in the present day Baidu has tended to look the weakest of the BAT kingdoms, with its core search engine business seemingly outflanked by Alibaba’s dominance in e-commerce and Tencent’s stranglehold of social media with WeChat.

Possessing cash-rich and fast-growing businesses, each of the Ma monarchs has been looking to expand their territories through acquisitions and dealmaking. But after its unexpected coup last week – in linking itself to a major state-run bank – might Baidu regain the upper hand in its battles with Alibaba and Tencent?

A more eventful year for Baidu?
Baidu started 2015 with a bang, investing $600 million for a stake in Uber. The partnership allowed the American car-hailing firm to tap into Baidu Map, a service with 240 million active users a month. Li also hoped the deal would give Baidu a competitive edge in one of the fastest-growing segments of the O2O industry.

What followed set the tone for a year in which Li’s kingdom suffered a series of strategic setbacks at the hands of his rivals. Kuadi and Didi, the leading local taxi-hailing apps –
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and each separately backed by Alibaba and Tencent – shocked Li and many others in China’s internet world when they announced a surprise merger in February.

Baidu’s two bigger rivals forged another unlikely O2O alliance last month with the $15 billion merger of group buying and food delivery websites Meituan – partly owned by Alibaba – and Dianping, backed by Tencent.

The merged entity has an 82% market share, easily outflanking Nuomi, which Baidu bought last year. As with car-hailing, once again Alibaba and Tencent were threatening to crowd out a market that Baidu had newly entered. (That said, Alibaba is now reportedly in talks to reduce its stake in Meituan-Dianping and grow a wholly-owned equivalent of its own.)

Following Baidu’s announcement of disappointing first quarter results, investors were rattled further in April by a high-profile clash between the firm and one of its major advertisers. The Putian Health Industry Chamber of Commerce, which represents about 8,600 private sector hospitals, threatened to boycott Baidu’s search engine for overcharging it for online advertising (these fees contribute about 10% of Baidu’s annual revenue, see WiC276).

“The fact Putian felt bold enough to boycott Baidu earlier this year shows the company is no longer the monolith it once was,” believes tech analyst and blogger Doug Young, adding that Baidu is struggling to maintain its dominance in the search engine business. “Baidu’s former control of 70% of the market had been reduced to about 55% by the end of last year while Haosou [run by Qihoo 360] and Sohu’s Sogou controlled 30% and 13%, respectively,” Young claims.

Adding to Baidu’s discomfort, Alibaba has stepped up its efforts to court private-sector healthcare operators – a key source of Baidu’s earnings – and its Hong Kong-listed unit Ali Health declared this week that it will expand its internet-based medical services network, without specifying the amount of money it is going to invest.

The weakest link among BAT?

Despite the popular acronym, BAT has never been much of an equilateral triangle. A fairly miserable 2015 has also seen Baidu’s share price suffer. As of this week its market capitalisation stands at roughly $70 billion, considerably less than half of Tencent’s $189 billion, and some way further back on Alibaba, which is valued by investors at about $200 billion.

Over the past 12 months Baidu’s stock has dropped more than 15%. Tencent’s shares, which trade in Hong Kong, have climbed more than 30%. Alibaba’s comparables are less useful in this respect because it only went public in New York in October 2014. However, it is now about 18% above its IPO price. (And unlike Baidu and Tencent, some of the most promising assets in the Alibaba empire, such as Alipay, remain privately-held and unlisted.)

“The BAT used to represent China’s most influential internet firms. But the trend is evident that Baidu is dropping off from the big league,” suggests iHeima.com, a website focusing on investments in China’s tech space. “Maybe Baidu should instead be more worried about JD.com [an e-commerce platform which has market cap of about $40 billion].”

Although it is trailing in value creation, Baidu claims to be the most tech-savvy of the three tech firms. The company has been paying a lot of attention to projects such as visual internet search, self-driving cars, Baidu Eye (China’s answer to Google Glass) and Baidu Brain (again inspired by Google, it seems).

Emulation may well be the sincerest form of flattery, but perhaps Baidu has been trying too hard to make itself look like Google. And it is also tackling the same problem that its American equivalent faced five years ago: how to migrate its dominance of desktop PC searches and mapping services onto smartphones. While Google dealt with the issue by acquiring and then developing Android, an operating system for mobile phones, Baidu hasn’t made the same transition, lagging behind Alibaba and Tencent when it comes to capturing offline business
opportunities in the era of the mobile internet.

Of course, WiC has reported on many of the dogfights between Alibaba and Tencent in O2O and mobile (also see our focus issue The Battle for China’s Internet). But Baidu seems to have spent too much time on the sidelines.

“Baidu’s mobile internet strategy is streets behind Alibaba and Tencent. When the latter two were taking on each other in bloody O2O battles over car hailing services [see WiC226] and wealth management products [see WiC225], Baidu was simply an onlooker,” iHeima.com points out.

How is Baidu playing catching up?
According to a report in Caijing magazine, Li told 150 tech bosses and investors attending a conference in San Francisco in July that he regretted not being more aggressive in buying into the mobile internet.

Baidu also estimates the O2O market to have grown to at least RMB10 trillion ($1.56 trillion), with a current online penetration rate that’s still less than 5%. The market is set to double in four to five years, the company has suggested.

As a result, Baidu is doing more to expand beyond its core search business and in June it said it would invest RMB10 billion ($1.56 trillion) over the next three years on O2O services. The bulk of this investment will be pumped into Nuomi, which Baidu still hopes to transform into a platform where mobile internet users can buy just about any service.

In a telling indication of Baidu’s move to a more offensive footing, it has also planted flags areas uncolonised by its rivals. In August it invested $100 million in mobile-based, on-demand laundry firm Edaixi. The deal represented a rare victory over Tencent and Alibaba, Caijing reports, as both had also gone after Edaixi.

A similar approach in M&A has helped Baidu grab an advantage in China’s fast-growing online travel market too. In a convoluted deal inked last month, it traded away its controlling stake in Qunar to Ctrip, China’s biggest travel site. In return Baidu is getting 25% of the merged entity – which controls an estimated 61% of the market for flight bookings online, and 41% for hotel rooms (see WiC302).

Baidu now aspires to do much more than match information with search requests, setting out to match “people and services” as well, Caijing reports. The plan is to tap into its 643 million mobile search users and map users to offer localised services and then charge for them with its online wallet payment app.

“We are in a new development phase and we call it ‘indexing the real world,’” Baidu’s head of communications told the magazine.

The company said last month that revenues from its O2O platforms such as Nuomi and Qunar have risen to Rmb60 billion in the third quarter, as compared with Rmb40.5 billion in the previous quarter.

Next up O2O financial services?
Financial services has been regarded as another strategic weak-spot for Baidu. Alibaba and Tencent have advanced in this area via third-party payments, crowdfunding and wealth management products. Both have also been leading the charge into private sector banking.

Regulators have granted bank licences (in Alibaba’s case through Ant Financial, a sister firm) to challenge the monopoly grip of the state-owned banks. Earlier this year Tencent launched an online-only bank called WeBank (named after its popular messaging app WeChat) and Ant Financial followed with its Mybank.

Baidu’s year-end push into banking is clearly designed to close some of the gap. Teaming up with Citic Bank, the banking unit of financial conglomerate Citic Group, the pair have announced an initial investment of Rmb2 billion in their new venture, Baixin Bank.

Baixin is an attempt by Baidu to
Talking Point

help Citic offer more efficient internet banking services. The first ever tie-up between a Chinese internet firm and a state-run lender, it also differs from rival banking ventures by combining Baidu’s ‘big data’ capabilities with Citic Bank’s physical retail presence.

Adding to its drive into banking, Baidu wants to make a splash in the insurance industry too. The search engine group said this week that it would be launching a joint venture with German financial behemoth Allianz and local investment group Hillhouse Capital to set up an online insurer. The trio intends to offer a range of products including travel, health and internet finance insurance, the Financial Times reports.

Of course, Alibaba and Tencent teamed up with Ping An Insurance in 2012 to launch their own O2O insurance venture. “So is Baidu throwing down the gauntlet in front of the three Ma’s [Jack Ma, Pony Ma and another Ma – Ping An’s boss Peter Ma]?” an internet user queried on Sina Weibo this week.

Should we add an X to BAT?

Earlier in the year pundits were voicing their views on whether the acronym was still relevant. “There will no longer be BAT. The future is about the competition of AT,” one columnist wrote on NetEase.

Others gave it a different spin, predicting that there were now ‘four kingdoms’ and the acronym should be extended to BATX – with the “X” standing for Xiaomi.

The five year-old start-up – founded by Lei Jun – completed a fundraising a year ago which valued it at $46 billion. The addition of Xiaomi to the mix would underline expectations that (like Apple) it will leverage its smartphone hardware, a point of difference from the BAT, which have grown without selling devices.

Other dark horses may emerge to rival Alibaba and Tencent and replace Baidu.

“BAT is likely to become ATX in the future,” Sina Technology predicts, adding that companies like Xiaomi, LeTV and JD.com are all threatening to contribute the “X factor” that Baidu is lacking.

Not everyone is writing Baidu off. “First came the investment in Ctrip and now we have the Baixin Bank. You can see Baidu is taking on more groundbreaking deals, while AT have turned relatively low key,” a tech columnist wrote recently in the Global Times. The columnist also expects Baidu to garner more attention next year if it launches its speech recognition and voice-based search services (for mobile) successfully.

Nor should we overlook the differing DNAs that spawned the three firms. Alibaba and Tencent have certainly shown more urgency in converting their digital leadership into a nakedly commercial masterplan and monetise as many services online as possible.

Perhaps there is something a little more idealistic about Li, evident in the name he chose for his company. ‘Baidu’ derives from a Song Dynasty poem about the persistent search for an ideal, represented by a beautiful woman (the relevant verse: “hundreds and thousands of times, for her I searched in chaos, suddenly I turned by chance, to where the lights were waning, and there she stood…”).

The poet in Li looks now to be swapping his calligraphy brush for a sword. Only time will tell if he can brandish it quite as powerfully as his larger foes...

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Apple Pay to launch in China by February?

More ‘phoney’ money could be set to come to China, courtesy of Apple, reports the Wall Street Journal. It reckons the tech giant has signed a deal with the nation’s four biggest banks to launch Apple Pay, and hopes to start the service before February 8, the start of the Chinese New Year. If so that would be quite a coup, marking a foreign firm’s entry into China’s vast and erstwhile protected payments system (UnionPay processes virtually every one of China’s credit card swipes). The Apple product works on its latest smartphones the iPhone 6 and 6s, and allows users to place their phones near readers in stores and then uses their fingerprints to validate purchases. In the US Apple typically takes 0.15% of all credit transactions and 0.5 cents per debit transaction, the Wall Street Journal suggests.

In June Apple registered an entity in Shanghai’s free trade zone to operate the service in China. Should it launch on the reported timetable, Apple Pay’s emergence would also provide a boost for the profile of the Shanghai zone, whose impact has been questioned by local and foreign media alike.

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Illustration: www.benitaepstein.com

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The Week in 60 Seconds

The Week in China
27 November 2015

Nuclear deals signed in KL

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

1. Three representatives of China Railway Construction Corp were among the fatalities of the Mali hostage crisis last week. The representatives were there to discuss a potential construction project. President Xi asserted China will “resolutely fight violent terrorist activities that hurt innocent lives, to maintain world peace and tranquillity.”

2. Alibaba is reportedly seeking to sell its $1 billion stake in the Meituan-Dianping merger formed last month, which accounts for 7% of the new company’s shares. Sources suggest Alibaba is removing itself from Meituan-Dianping to focus on its own, similar O2O platform, Koubei.

3. China General Nuclear Power (CGN) sealed a deal to purchase the power assets of Malaysian state-owned 1MHB, in the form of Edra Global Energy and its subsidiaries. The $2.3 billion exchange is expected to be completed in February next year. This news emerged whilst Premier Li Keqiang was in Malaysia, offering a string of economic perks to strengthen ties.

4. The People’s Liberation Army (PLA) announced plans for a major restructure, consolidating its current seven military command centres into four: Beijing, Nanjing, Chengdu and Guangzhou. The consolidation is designed to slim-down the PLA, making it “a real modern army of international standard”.

5. A robotics conference was held in Beijing this week, with both President Xi and Premier Li writing to express support of the industry. Vice-president Li Yuanchao encouraged foreign companies to share technology with Chinese firms, suggesting it would help them tap into the growing market. The industry is expected to create $15.7 billion in turnover by 2020.

6. The CEO of Guotai Junan Securities’ Hong Kong subsidiary has been missing since November 18 it was revealed this week, with speculation that he has been taken for questioning amid ongoing investigations into the summer stock market crisis.

7. Sixteen European countries attended the economic summit for cooperation between China and Central and Eastern European Countries this week in Suzhou. Premier Li, heading the summit, said “China respects the standards of the European Union and wants to find more avenues and agile methods to give financing support to big projects”. To this end, China signed deals with Hungary and Serbia to develop a railway line between Budapest and Belgrade, which will support trains travelling up to 200km per hour. The line is due for completion in 2017 and will “help create a fast lane for import and export of products between China and Europe,” Xinhua reports.
Vertu reality

Hampshire phone firm gets new Chinese owner

In a recent book review in the British magazine The Spectator, Stephen Bayley observed that “the BMW-sponsored London Olympics were held on a site devastated by Luftwaffe planes powered by BMW’s engines”.

If that seems ironic, others might also consider it an irony that a company from Communist China has just taken control of Vertu, a smartphone firm that very explicitly caters to the needs of the world’s top 0.01% (as opposed to the proletariat).

Of course, readers of WiC with a greater familiarity with modern China won’t find it particularly surprising at all, but they still might be puzzled as to why a little-known Chinese entity is interested in this niche phonomaker, formerly owned by Nokia.

According to Nanfang Daily, an investment agency named Godin Holding has purchased Vertu for an undisclosed sum. Vertu had previously been acquired by the Swedish private equity group EQT for €200 million ($212 million) in 2012.

Godin Holdings was incorporated in Hong Kong in July and seems to be a shell company for Beijing-based Godin Cyberspace Security Technology (tech news provider Engadget found the connection in the Hong Kong Companies Registry).

So what exactly is Godin buying? Unusually among tech companies, Vertu is based in the Hampshire idyll of Church Crookham in the UK, and employs 450 people there (as well as about the same number elsewhere in the world). The phones are hand-made by individual craftsmen and are marketed as objects of beauty as much as communication devices. Prices range from an entry level $10,000 to a more plutocratic $200,000 and come with scratch-proof sapphire glass, titanium cases and exotic leathers (ostrich in the case of the Aster model). For the pricier handsets gold and diamonds feature, while the ringtones are produced exclusively by the London Symphony Orchestra.

An additional benefit: the phones come with an in-built app that offers concierge services promising access to the most exclusive restaurants and tickets for sellout theatre performances, such as Benedict Cumberbatch’s Hamlet.

But as one former Vertu customer told WiC, the main draw is less the concierge service and more what ownership of the phone implies (elite status). No doubt this is the kind of message that Vertu’s new owner from China would like to amplify. According to Communication Information News, Vertu already has 60 ‘boutiques’ in China, concentrated mainly in first-tier cities. But it has struggled to deliver local language services, which has restricted its word-of-mouth reach among Chinese high-end users.

The new owner will need to correct this if it is to succeed with Vertu’s new strategy to expand its retail network into more second and third-tier cities, Communication Information News suggests.

Forbes magazine says that another of Godin’s priorities may be to promote a new ‘secure’ operating system that it released in June. The domestically-engineered GOS platform uses advanced encryption and can wipe data if a phone is reported lost or stolen. It looks likely that this software will supplant the Android-based OS that Vertu phones have run on for the past two years.

Godin is obviously betting that a Made in England phone with a hyper-secure Made in China operating system might persuade more of China’s super-wealthy to join the Vertu club.

And in other smartphone news Xiaomi released a new model, the Redmi Note 3, this week. At $140 the model clearly isn’t going to compete with Vertu but it will lock horns with homegrown brands like the Huawei P8 (which – thanks to its dual SIM card and innovative features – got a rave review from Jonathan Margolis in the Financial Times). Data from Canalys suggested that Huawei had overtaken Xiaomi to lead the local smartphone market in the third quarter (see WiC304), with Huawei’s unit sales growing 80% year-on-year. Vertu’s new owner will be hoping for a similar percentage increase...
Taking stock
Birthday of Stock Connect passes with a whimper

“...What we lack is relatively long-term, rational investment from institutions,” complained Qi Bin, head of the international department at the China Securities Regulatory Commission (CSRC). He was commenting shortly after the launch of the Shanghai-Hong Kong Stock Connect scheme in November last year. Sadly, 2015 won’t be remembered as one in which institutional investors finally introduced more sophisticated valuation techniques to China’s A-share market, as the founders of Stock Connect hoped.

Charles Li, head of Hong Kong Exchanges and Clearing (HKEx) and Gui Minjie, President of the Shanghai Stock Exchange, had plotted this goal when they first discussed a mutual access scheme at a small tea-house in Shenzhen in 2012.

They hoped that a link between their respective exchanges would help tilt the Chinese stock market away from momentum-driven retail investors towards the kind of funds that dominate Hong Kong trading, where roughly 60% of business is driven by institutions (and 80% of that by foreign funds).

Instead, 2015 will be remembered as the year when foreign investors weren’t able to provide a sobering influence as millions of retail investors got drunk on spiralling share prices and margin financing.

As a result, many of the press articles marking Stock Connect’s one-year anniversary on November 17 have been downbeat.

“The Chinese government hoped Hong Kong’s professional fund managers would buffer the A-share army, but that hasn’t happened as anticipated,” reported National Business Daily, with some understatement.

Daiwa’s strategist Kevin Lai went further, telling the Wall Street Journal that the scheme has “failed miserably”. Figures show that northbound investors (from Hong Kong to Shanghai) used up only 40.3% of their annual Rmb300 billion ($46.95 billion) quota. Southbound investors used up less: 36.72% of their Rmb250 billion allowance.

Of course, Stock Connect was launched only shortly before the height of China’s stock market frenzy this spring, when Shanghai and Shenzhen were trading up to $380 billion a day, compared to about $9 billion in London and $248 billion across the US. Foreign investors then had to deal with the disorderly consequences of the subsequent meltdown, with many of them running rapidly for the exits.

HKEx’s Li argues that the market needs to take a longer-term perspective. “The focus shouldn’t be on aggregate quota usage or trading turnover,” he told Xinhua. “Stock Connect is much bigger than that. It’s a catalyst and a model for the future.”

But wider analysis of the scheme shows that foreign and domestic retail investors have displayed very different criteria in utilising the cross-border link. Foreign money has favoured (available) large cap stocks in China with valuations below 30 times earnings and a track record of paying dividends. Their top holdings are in banks and durable consumer goods. Mainland investors, on the other hand, have preferred small cap stocks in pharma, construction and property. This may bode well for smaller firms listed in Hong Kong if the Shenzhen-Hong Kong Stock Connect also gets off the ground, as it will embrace Hong Kong’s Small Cap Index.

When might that be? The People's Bank of China tripped up a few weeks ago when it republished old comments mentioning that the Shenzhen link could start before the end of 2015 (sparking a short-lived rally). But analysts believe that any expansion in Stock Connect is more likely in spring next year, so that China stands a better chance of getting its A-shares included in the MSCI’s Emerging Market Index.

CSRC officials have also hinted that Stock Connect’s quotas and list of investable stocks will be expanded, allowing investors to trade across the wider market. Further down the road, bourses in London, Taipei and New York’s Nasdaq are hoping to set up similar two-way schemes too.

This might help to stem the flow of Chinese firms delisting from the US, including property portal SouFun, which is about to become the first NYSE-listed Chinese company to hive off assets and refloat them in China via a backdoor listing.
Production overhaul

Domestic factors conspire to dampen traditional manufacturing

Dongguan’s mayor Yuan Baocheng was putting a brave face on his city’s challenges last month. “This year, we learned that about 500 foreign and domestic businesses have closed,” he said. “[Under] reasonable market competition, it’s normal to see some businesses close and others open.”

City officials have claimed that economic output increased in the first three quarters of the year and that Dongguan will benefit from Xi Jinping’s “One Belt, One Road” economic strategy.

But as we have written previously (see WiC173), others wonder whether the city’s troubles could be a little more terminal.

According to Lin Jiang, professor at Guangdong’s Sun Yat-Sen University and a specialist on the city, Dongguan enjoyed its “Golden Age” between the Asian financial crisis of 1997 and the global financial crisis of 2008. Dongguan’s success was built on an export-oriented model, China Business agrees. A slump in global demand since 2008 brought the “first wave” of factory closures to the city. But now it is domestic factors that are contributing to what the magazine describes as a “new wave” of shutdowns.

In particular higher labour costs are creating difficulties for the small to medium-sized enterprises (SMEs) that dominate Dongguan’s commercial landscape. A survey conducted by the China Centre for Promotion of SME Development found that roughly 79% of businesses considered rising labour expenses as a top concern – an increase of 10% on last year. Economic growth and an aging population have both played roles in higher labour costs, China Labour Bulletin also notes. “Fewer young people are entering the workforce and those that do have higher expectations. Workers have become better organised and employers in many sectors have been forced to pay higher wages in order to recruit and retain staff,” says the Hong Kong-based organisation.

Although an increase in wages will be welcomed by the migrant workers that still form much of the manufacturing labour force, there are obvious consequences on company profitability. The hike in pay has pushed costs at some of the city’s factories above those in Bangladesh, Vietnam and Cambodia, where businesses are now relocating their operations.

This “new wave” of closures includes Microsoft’s shuttering of its Nokia production factories in Beijing and Dongguan – which is estimated to have cost at least 9,000 jobs. The closures are part of Microsoft’s broader plans to relocate Nokia production to Vietnam.

Recognising the rise in labour costs, policymakers in Guangdong (Dongguan’s provincial home) have announced plans to promote investment of $152 billion in industrial robots over the next three years. But some are sceptical of the programme’s benefits, saying that automation isn’t a viable option for many of the region’s businesses.

For instance, Yeh Cheun-rong, the former director of Dongguan’s Taiwan Business Association, says that local businesses would already have introduced more automation if they thought it could keep them competitive.

“Entrepreneurs definitely think ahead of the government. If their manufacturing process could be automated they would have adopted...
automation long ago. But lots of production cannot be done by machines or robots,” he said.

Dongguan’s challenges aren’t unusual, an advisor at the same Taiwanese Business Association has also claimed. “It isn’t only Dongguan. The whole country’s situation is more or less the same. Ningbo, Changzhou, Wuxi, Kunshan, Suzhou: the factories in these areas that make products for export have all seen their growth rates fall by 40% or more.”

Last month the closure of Farun, a major sheet-glass maker headquartered in Suzhou in Jiangsu, pointed to another new challenge for factory bosses: increased pressure to comply with environmental protection rules.

According to the Australian Financial Review, Farun had been named and shamed as one of the 17 worst polluters in China, with only one of its 18 production lines fitted with the required pollution filters. But the newspaper claimed that Farun’s founder had simply paid the fines for breaching the environmental standards, because the penalties were more than outweighed by the financial benefits of skirting the rules.

Now the context has changed and research from Citic Securities has estimated it would cost $80 million to bring Farun into compliance with the newly toughened regulations, plus an extra $30 million a year in operating costs.

An analyst in the glass industry told National Business Daily: “Starting from the beginning of this year, environmental pressure placed upon the glass industry, especially in the East China region, has become increasingly severe. This can be seen across the industry where, at a basic level, the cost of production has increased by Rmb60 ($9.38) per tonne.”

Farun had an annual production capacity of 400,000 tonnes, translating to additional costs per annum above the $30 million predicted by Citic.

The increases in operating expense are putting pressure on a sector struggling with oversupply.

As a staff member with China Southern Glass Holding reports: “The glass industry – especially flat glass – has always existed alongside a supply glut. Most notably in 2010 the majority of firms were expanding at unreasonable rates, creating fierce competition. Since last year, the price of glass has been in constant decline.”

The slide in glass prices also reflects the slowdown in a separate industry: property. According to CBN, real estate development accounts for 75% of demand for flat glass in China – for Farun it accounted for even more of its production – but growth rates in the property sector have been slowing since 2014.

In looking for a silver lining Beijing News has been drawing on Dickens for inspiration, describing the situation as “the best of times and the worst of times” for manufacturing firms.

The “best of times” is dawning for entrepreneurship and innovation, the newspaper argues, but the “worst of times” has already arrived for some of the most traditional, lower-end factories.

In May, Beijing announced its “Made in China 2025” policy, which aims to promote IT, robotics, aerospace, railways, electric vehicles and other advanced industries in a bid to move the economy away from the low-value model that fuelled growth in the past.

This month the Financial Times explored a similar theme after news of falling orders at the Canton Fair. Headlined “Adapt or die” the article looked at the troubles facing companies in cities like Dongguan. But it also offered a welcome example of a company that has revived its prospects.

Megmeet was a maker of basic components for heaters and power supplies. But its new subsidiary Ikahe now makes its own-brand of ‘smart toilets’ (think of the fancy Japanese ones), which sell for up to $2,000 each.

As an Ikahe executive told the FT, the firm’s move into the world of higher-value consumer products has been a well-time one and the company has high hopes of establishing a new niche market: “Every Chinese person has an iPhone now, even cooks and cleaners, so if rich people want to show their status the best way is with an expensive toilet.”

That sounds a little optimistic, although Dongguan’s local government bosses will be hoping for similarly positive energy as they try to reinvent the city’s economy.
Three major Chinese investments in Australia – or attempts thereof – have come under intense scrutiny in the past week. The first is a bid by a private Chinese firm to buy a cattle farm; the second is the reported refusal to allow the State Grid Corporation of China to join a deal to privatise the New South Wales electricity grid; and the third is an agreement by the state government to grant the Chinese company Landbridge a 99-year lease of the Port of Darwin in the Northern Territory.

In each case local opposition has been voiced on national security grounds, providing a useful lens on how Australia views China and its rise.

It also casts fresh light on that evergreen conundrum for Australian policymakers: how best to manage their country’s relationships with the world’s two largest powers, the US and China.

Concerns over the port in Darwin stem from the background of the Chinese firm that has leased it. Opponents of the deal have focused on the apparent connection between Landbridge and the Chinese military, including a page on the company’s website that proudly refers to its in-house armed militia.

Prime Minister Malcolm Turnbull went on the defensive over the lease after speaking to President Obama at the APEC meeting in Manila this month. Reportedly, Washington is annoyed, not least because it was not informed in advance. But Turnbull explained: “The Northern Territory parliament conducted an inquiry. I had a committee that looked into it earlier this year and it reported in April and recommended that the... Northern Territory Government consult... with FIRB [Foreign Investment Review Board] and with the Australian Defence Department.”

Peter Jennings, the executive director of the Canberra-based Australian Strategic Policy Institute, told WiC via email that the Darwin dispute is symptomatic of a deeper problem in how the country’s FIRB assesses Chinese bids for Australian assets.

“I think the aggregate volume of potential Chinese FDI is stressing an already broken FIRB system,” he warned. “It’s also the case that Chinese business is qualitatively different because of the nature of the Party system and a lack of transparency in how businesses are managed. It is idle to pretend that this is just ‘business as usual’ where Australian critical infrastructure is concerned.”

Other political leaders have countered that the security concerns about the Darwin deal are overstated, including Trade Minister Andrew Robb. “The fact of the matter is Defence has step-in rights, so if something happens for whatever reason and they want to take control of the port, they can,” he insisted.

Professor Hugh White of the Australian National University says the debate over Darwin also highlights Canberra’s diplomatic challenges in managing its two most important relationships.

This week he told WiC: “Clearly the closer we become to China economically, the more we will face choices between the US and China. Washington is deeply displeased by what has happened, as we must expect. Canberra has been in denial about this, assuring us the ‘we don’t have to choose’, but in fact we face such choices all the time, as the Darwin case shows.”

Previously the Chinese have expressed their own concerns about the American presence in Darwin,
after it was announced that a contingent of US marines would be based there.

More recently Beijing protested at the (as it turned out, erroneous) news that B-1 bombers would be stationed there (Washington later clarified that Assistant Secretary of State David Shear “misspoke” when he told a Congressional hearing the aircraft would fly from Darwin).

The case of the Kidman Ranch – the largest cattle station in the country – is different. This time the government blocked the sale to all foreign buyers (including the Chinese) because the cattle station borders on the Woomera Protected Area, a testing site for munitions used by the defence ministry.

Liberal Senator Richard Leyonhjelm, who has an agribusiness background, criticised the decision. “We were promised a rejection of defensive policy – but there is nothing more defensive than a policy driven by fear of the ‘Yellow Peril’. The cattle industry would not exist but for foreign investment,” he wrote in Farm Weekly.

Nick Xenophon, an independent member of the Senate, welcomed the refusal, but called for more clarity about the investment review criteria after “the gobsmacking decision” on Darwin’s port.

“What doesn’t make sense here is that an iconic cattle property is to be kept in Australian hands on national interest grounds. But a key strategic asset like the Port of Darwin is subject to a foreign takeover with barely a whimper from the Foreign Investment Review Board,” he said.

When criticisms of Chinese investment are raised, accusations of racism are rarely far behind. For instance, former leader Tony Abbott warned against such sentiment in countering Labor’s concerns that sections of the China-Australia Free Trade Agreement (ChAFTA) might allow more Chinese workers into the country. But Chinese investors don’t seem to have been much deterred. According to KPMG Australia, the Chinese have invested A$70 billion ($49 billion) in Australia in the past seven years, becoming the single largest foreign investor last year.

China is already Australia’s largest two-way trade partner too.

The annual survey on Australian attitudes to the wider world from the Lowy Institute paints a more mixed picture, however. A ‘solid majority’ (77%) see China as ‘more of an economic partner to Australia’ than a ‘military threat’, while only 15% see China as ‘more of a military threat’. Attitudes seem to be softening too, with a 9-point drop in the percentage of people (39%) thinking it ‘likely’ that ‘China will become a military threat to Australia in the next 20 years’.

Australians also view China as the most important country to them economically, ahead of the US.

But 70% of respondents to the Lowy poll also said that their government is allowing too much investment from China.

“Our historical polling suggests that Australians may have a particular aversion to Chinese investment in residential real estate compared with other forms of Chinese investment in Australia,” the survey’s authors suggested.

The same sense of hesitation seems to apply to purchases of rural land, following a deal between the ruling Coalition (made up of the Liberal Party and the rural-based Nationals) and the Greens to reduce the approval threshold for foreign investment in farmland from projects worth A$252 million to A$15 million.

Buyers from China, Japan and Korea will all be scrutinised by the FIRB, despite signing free trade agreements with Australia in the past 12 months. China’s Ministry of Commerce sees the move as hostile, and an official was quoted as calling it “serious discrimination against China”.

But Australian unease at allegations of Chinese espionage aren’t fully unfounded, says Peter Jennings from the Strategic Policy Institute.

“Beijing is an aggressive intelligence gatherer against Australia in terms of government and private sector interests. I believe there are justifiable concerns about the potential for China to seek to gather information of value to it under the guise of business engagement,” he warns.

Jennings has also been outspoken on State Grid’s bid (made jointly with Australian financial group Macquarie) for Transgrid, the New South Wales transmission business, arguing that it should be treated in the same way as the 2012 decision to block Huawei from a role in constructing Australia’s national broadband network.

A report in the Australian Financial Review last weekend suggested that defence and intelligence officials have recommended the government reject the State Grid bid too.

And on Wednesday the Senate stepped in and ordered a wider review that will encompass Transgrid, Darwin port and the blocked sale of the Kidman Ranch. It will report back on February 4.

Hugh White at the Australian National University says the confusion highlights the need for a fresh perspective on how to handle Chinese investment in Australia (see WiC173 for a review of White’s book The China Choice). “The fears about Chinese investment do clearly reflect a growing sense that China is, or might become, a strategic threat to Australia,” he suggests. “But they also show that Australia has not yet thought through the wider implications of China’s rise.”
A reform-minded minister intent on creating a world-beating Chinese company that attracts international investment and draws on Western technology but which stays under government control.

It might sound like someone on a high-profile mission for current Chinese president, Xi Jinping. But in fact it describes Li Hongzhang, a leading government minister in the later years of the Qing Dynasty. The business that he created – China Merchants Steam Navigation – was China’s first joint stock company. The Western competitors he had in his sights were Hong Kong-based merchants Jardine Matheson and Butterfield and Swire. Li’s efforts formed part of a broader ‘self-strengthening’ movement that was popular at the time (although he was less successful in propping up the ailing Qing Dynasty). After its establishment in 1873, China Merchants did break the duopoly of the British hongs in Yangtze River shipping.

Almost 150 years later, the company the Qing bureaucrat created is spearheading another round of reform of state-owned enterprises (SOEs). Last week, the listed entities of shipping firm Sinotrans & CSC Holdings announced that they had received notice from their parent about a strategic restructuring that could see their businesses run by a new controlling shareholder.

According to the Chinese press that new shareholder will be China Merchants Group (CMG), the latest incarnation of China Merchants Steam Navigation, which went on to shift its headquarters to Hong Kong in the 1980s.

21CN Business Herald says the idea came from CMG and has been approved in principle by Sasac, which will remain the ultimate shareholder of the merged entity. The newspaper also claims the merger will take a different form from the enforced merger between train rolling stock manufacturers CNR Corp and CSR Corp, or the potential joining of container shipping giants China Cosco and China Shipping Group (CSG).

There will be no asset swaps between CMG’s maritime arm China Merchants Energy Shipping (CMES) and the Sinotrans & CSC listed entities. Instead, the merger will take place at group level and CMG will use its financial firepower (it is better known for its banking operations) to structure the deal as an acquisition, with Sinotrans & CSC becoming a subsidiary.

A merger would create a supertanker of an SOE with total assets of around Rmb700 billion ($110 billion): far larger than the proposed Rmb500 billion asset base of a combined Cosco/CSG.

A similar deal almost happened a decade ago, if rumours are to be believed. Indeed it has been suggested that Sinotrans’ current chairman Zhao Huxiang left CMG in 2005 for the logistics group in order to facilitate a merger. Instead, he found himself overseeing a consolidation with Wuhan-based Changjiang National Shipping Company, which was completed in 2008 – although it took a further six years before the two companies had fully integrated their operations.

In a press conference last week Zhao argued that a tie-up between CMES and Sinotrans & CSC would be more straightforward as the operations of the listed entities will not change significantly and the groups have complementary rather than overlapping businesses.

Sector experts agreed, noting too that – unlike Cosco and CSG, which are expected to confirm their merger early next year – none of the companies concerned have suspended trading in their stocks pending further details of a deal.

Both CMES and Sinotrans & CSC have energy transportation businesses which can expect to be a focus of the new arrangements, says 21CN. Likewise, the partners both have shipping businesses, with CMES focusing on regional markets and Sinotrans & CSC on more domestic business. Linking them would create a shipping services chain underpinned by the logistics capabilities of Sinotrans.
Hollywood is the spiritual home of the blockbuster action flick; France of more arty, melancholy movies; and Britain of the period drama (think Anthony Hopkins and Emma Thompson wandering around imposing stately homes).

How about Taiwan? Well, its filmmakers seem to have found the secret sauce for producing teenage romances.

The rough story arc: boy meets girl at high school, time flies, they grow up and drift apart, before meeting once again.

Such elementary ingredients saw You Are the Apple of My Eye take in more than NTS$410 million ($12.6 million) in 2011, registering as the island’s third biggest box office hit ever.

When released in mainland China in 2012, You Are the Apple of My Eye broke the record for a Taiwanese movie, earning Rmb76 million ($12 million). But that performance is going to be surpassed by Our Times, another adolescent love story. The plot begins in present-day Taipei where lead actress Joe Chen is in her thirties and stuck in a dead-end job. One night she recalls her puppy love of the 1990s (the younger Chen is played by Vivian Sung, a clumsy girl who spends her days fawning over the most popular boy). Straightforward stuff, it seems, but Our Times has already grossed more than Rmb100 million in China since its debut last week.

Teen romances from Taiwan aren’t guaranteed to be hits. Cape No.7, the highest grossing Chinese-language movie in Taiwan (it made more than NTS$530 million) didn’t excite mainland audiences, with one critic blaming the movie’s “implicit Japanophilia” – a result, he said, of Taiwan’s colonial past under Japanese rule.

Our Times opts for the safer themes of first love and coming of age, experiences that can be shared by those on both sides of the Taiwan Strait.

Of course, if a genre is seen to be working with audiences, China’s film moguls aren’t likely to pass on attempting to make a domestic version too. Sometimes, though, they add a twist of their own. Take So Young, where a Chinese woman reconnects with her college sweetheart. It was a commercial success, as were My Old Classmate and Back in Time.

But unlike their Taiwanese brethren, all three featured a gritty subplot: abortion. “So Young, My Old Classmate and
Back in Time have been considered the trilogy of our youth romance genre. Three movies, three abortions. A 100% abortion rate,” Sina Entertainment notes.

“Wait a minute, why do they always jump to abortion after having the first kiss? What has happened to our teen films?” a netizen commented in a post on the same article.

Pregnancy terminations now seem so associated with some of China’s ‘teen films’, that when you type that term into the search engine Baidu, “abortion” pops up as a complementary keyword.

“Watching Taiwanese teen films is like taking a warm bath or cycling along sea breezes. Very relaxing and very comfortable.” a critic writes on China.com. “But the same genre of movie in the mainland tackles a much more brutal reality. That is the biggest difference.”

ThePaper.cn reckons that Taiwanese directors handle the genre more skilfully, blending the right mix of sentimentality and comedy.

Across the Strait there are much harsher realities to contend with. “In mainland productions the boys and girls all have to undergo vigorous labour pains to grow up. Their coming of age typically involves sacrificing an unborn baby. If that’s not cruel enough, some scriptwriters resort to car crashes so that the youthfulness of the lead characters is crushed to pieces,” ThePaper.cn suggests.

But is Chinese cinema just mirroring reality? About 13 million abortions are carried out annually, according to the technology research centre under the National Health and Family Planning Commission, the China Daily reported in January. The Economist, citing an estimate by the health agency Marie Stopes, says that the annual figure may be closer to 40 million.

At a public hospital in Tianjin, the China Daily reports, the number of under 16s undergoing abortions is growing 30% a year, triggering concerns about the effectiveness of sex education among young people.

Traditionally discussion about the birds and the bees has been something of a taboo subject for Chinese parents. According to the same report in The Economist, a 24 year-old forestry student from Beijing informed the magazine that his parents had told him he had “emerged from a rock” when he enquired about his origins. When the same man started having sex with his university girlfriend he had little idea about contraception.

In the absence of better sex education in schools and at home, perhaps mainland film producers are taking on more of the responsibility themselves. Their dramas may not have the same lyricism as their Taiwanese progenitors but at least they make plain the consequences of careless coupling for teens.

Getting shitty

Victorious Evergrande FC’s sponsor is mightily upset

For Chinese football it was a week of apology, glory and recrimination. In an action-packed seven days the country’s top team even faced a potential lawsuit – from its own sponsor – while one of its owners – Alibaba’s Jack Ma – was compared to Mao Zedong for the frenzied adulation accompanying his appearance at Saturday night’s big game in Guangzhou.

But let’s start with the apology. On Monday the China Daily reported that the nation’s football governing body had finally spoken up about last week’s goalless draw with Hong Kong. That somewhat embarrassing result – its second failure in quick succession to hit the back of the net against a minnow of world football – has almost certainly prevented China from qualifying for the World Cup Finals.

“The Chinese Football Association (CFA) has apologised for the national team’s poor performance in qualifying matches for the 2018 World Cup in Russia,” wrote the China Daily. “The association said it took full responsibility for the team’s lacklustre displays and apologised for letting supporters down.”

The admission came after angry fans took to the web to lambast yet another chapter in the team’s history of underperformance.

Aside from the result in Hong Kong itself, hordes of fans were upset by the CFA’s reaction to it: silence and denial.

Titan Sports pointed out that the association’s own webpage “proves the ugliness of the CFA”. Why so? The weekly newspaper noted that two days after the depressing result, the CFA’s homepage featured just three headlines: one about a victory for the under-16 women’s national team, another about a game with Bhutan and a third relating to the Chinese Olympic football team.

But as Titan pointed out, there was no mention whatsoever of the match everyone was talking about: the goalless draw with Hong Kong.

Titan’s conclusion: “It [the CFA] feels ashamed and tries to save face.” The sports news outlet added dismissively: “Without the courage to face failure and even the spirit of seeking truth from facts, how can the CFA talk about ‘reform and development?’”

The CFA’s boss also came in for a bashing from leading football commentator Dong Lu. In a scathing assessment of Cai Zhenhua, Dong noted that he was also caught by TV cameras looking at his phone when the winning goal was scored at Saturday’s AFC Champions
League final. Dong asked of Cai, a former table tennis player, “Does he really love football? Does he really understand the laws of football? Does he have enough courage and determination to change the status quo of Chinese football? I think these may become huge question marks after tonight.”

Indeed, many of the recriminations about the CFA – and its unprecedented apology – came after the success of Guangzhou Evergrande Taobao in the aforementioned game at the weekend.

In this instance, the Chinese team was the victor, winning its second Asian championship in three years by defeating Dubai’s Al Ahli one-nil.

Evergrande’s success retriggered the debate about how the football world reflected the difference between the efficiency of the private sector and the lumbering nature of the state system (as embodied by the CFA). Another sports commentator Huang Jianxiang made the point explicitly: “Evergrande’s ability to succeed confirms that if the government gets out of Chinese soccer and gives it over to the market and society, there will be quick results. Evergrande don’t only rely on money, but also the most professional skill levels and methods to improve their game.”

In spite of its success on Saturday, Evergrande didn’t bask in media glory for long. No sooner had it raised the trophy aloft than business-focused magazines like Caijing and Caixin Weekly were chastising the club for “defaulting” on contractual obligations to its sponsor Dongfeng Nissan.

That’s because on the night of the final the team replaced the logo on its shirt promoting the Venucia car to one publicising its co-owner’s move into a new business line.

The shirts read ‘Evergrande Life’, following Evergrande’s purchase of 50% of Great Eastern Life Assurance-China for Rmb3.94 billion this month (the company was swiftly renamed Evergrande Life).

However, Caixin said this “flagrantly breached its contract” with the Sino-Japanese sponsor and illustrated that the club “obviously does not know how to safeguard the rights of its core sponsor that contributes a quarter of the team’s total revenues”.

According to state media Dongfeng Nissan has responded that its deal with the club – worth Rmb110 million annually – states that it has the sole right to advertise on the team’s shirts and that “changes should be made under mutual consent”.

Dongfeng says it rejected a request to switch logos for the final, but the club went ahead with it anyhow. State media adds that the carmaker says it has started legal action against the club, while Evergrande claims to be “open for negotiations and wishes Dongfeng Nissan to continue its sponsorship”.

This wasn’t the only non-football related matter of the evening. The other talking point centred on the manner in which Chinese fans at the the stadium responded to the club’s co-owner Jack Ma. The Alibaba billionaire isn’t regarded as a football expert. But whenever Ma responded to play or made hand gestures he was greeted with whoops of adula-
tion by the crowd, clearly in thrall to his fame and fortune.

Online this led some to draw comparisons between the attention Ma was receiving at the match and the kind of worship once bestowed on Mao at the height of the Cultural Revolution.

“Ma is the reincarnation of Mao,” wrote one blogger. “Many people listen to Ma’s words like disciples. Or, as they say, when the drums beat the followers flock forward to the battlefield like tigers down the mountain.”

Another worshipper wrote: “Ma is the contemporary version of Mao. Although some netizens criticise him, he doesn’t have to care about that, because this is how great people are.”

Of course, while Ma was inspiring the fans from the stands, and despondent Dongfeng Nissan executives were wondering what had happened to their shirt sponsorship, we shouldn’t forget that the real star of the evening wasn’t Chinese at all.

Yes, the scorer of the winning goal was the Brazilian striker Elkeison, who broke the deadlock in the 54th minute.

**Red arrows**

*Latest Hunger Games movie proves big hit in Beijing*

A true measure of success for international celebrities in China is when they are bestowed with an affectionate nickname. Jennifer Lawrence, beloved for her portrayal of freedom fighter Katniss Everdeen in the *Hunger Games* series, is popularly known as *Da Biaojie*, or ‘older cousin’. In fact China is consumed by Lawrence-love right now, and likewise with the tale of the “girl on fire” who leaves District 13 to liberate the citizens of Panem that has made her such an icon. Fans view the actress “as if she was a member of their family,” the Global Times says.

At the box office, *The Hunger Games: Mockingjay — Part 2* racked up $16 million in its opening weekend in China. Lionsgate – the studio producing it – linked up with China Film Group to hold its first ever premiere in China, which was attended by Lawrence, co-stars Josh Hutcherson and Liam Hemsworth, and director Francis Lawrence. Adoring tributes ensued. “It seems that everywhere this young actress goes, laughter follows. Her current trip to China is no different,” said the Global Times, which focused on Lawrence’s love for laughter, at one point describing her giggling so much she could barely stand up.

“Lawrence certainly has a reputation for being a fun extroverted person. She humorously dealt with her falls on her way to the stage when receiving her Oscar in 2013 and also during the red carpet for the Oscars the following year, which made fans just love her even more,” the newspaper gushed.

There were more jolly japes in photos from the cast’s publicity tour. One showed Hemsworth, who plays the brooding hero Gale Hawthorn, wearing a panda hat and carrying Jennifer Lawrence’s Valentino purse as the cast took to the Great Wall. Hemsworth later told American TV host Jimmy Kimmel that he thought the Great Wall was spectacular: “A lot of hard work was put into that wall. I respect it.”

Hemsworth’s praise for China’s air quality was more measured, however, telling Kimmel: “We couldn’t see very far because of the smog, you could have been on any small, brick-like bridge”.

*Mockingjay — Part 2* was Lionsgate’s biggest effort yet in China, debuting on several thousand screens.

And the movie’s success in China comes despite its seemingly contentious political message – after all, this is a film about rebels overthrowing an authoritarian regime.

The film’s director said the author of the series, Suzanne Collins, had set out to write about the consequences of war and violence, but that “one of the odd things that’s started to happen now is that some of the ideas that are in our movies are getting reflected back into real life”.

The franchise hasn’t always had an easy time of it in China, although apparently (and surprisingly) not because of its political content.

*Mockingjay — Part 1* opened in the US in November 2014, but didn’t reach China until February this year, after authorities pushed back the
opening date to balance the commercial box office hauls for domestic and foreign movies in the calendar year 2014.

A similar commercial jig occurred this year, with July’s black-out of foreign films giving priority to domestic titles. But that’s meant this November has seen a bonanza of foreign movies hit Chinese screens. These included survival epic Everest, sci-fi flick Maze Runner: The Scorch Trials, Snoopy’s first 3D outing The Peanuts Movie, and of course James Bond in Spectre.

Mockingjay - Part 2 was released on the same day as the Sino-French thriller The Transporter Refuelled, which is said to be a co-production and so does not come under the rules restricting overseas movies to 34 releases per year.

This week also sees the launch of The Martian, with Matt Damon. November has been so busy that the quota for the year is nearly used up, meaning that The SpongeBob Movie: Sponge Out of Water, which opens on December 1, could be the last international offering of the year.

During a recent trip to Chengdu, which is one of my favourite cities in China, I stayed at a brand new five-star hotel that combines the best of traditional Chinese architecture with the most sophisticated modern comfort. One early morning, I walked around the hotel’s neighbourhood and explored a new Xintiandi-type of commercial area next door. I first saw a Tesla showroom next to the popular Taiwanese restaurant Ding Tai Fung. Turning the corner, I ran into glitzy luxury stores for the likes of Gucci, Cartier and Hermès.

A few more yards down the street, I came across a beautifully restored temple. Daci Temple (or Big Benevolence Temple) was first built in the 3rd and 4th centuries. Xuanzang, the famous Tang Dynasty monk who made a historic journey to India, took his vows in this temple in 622. The building is grand and elegant, with beautiful calligraphies, statues, traditional courtyards and gardens. However, stepping outside the temple, I time-travelled straight back to the 21st century, seeing a Starbucks and a statue of Kungfu Panda.

But what was more surprising was what I saw moments later from my hotel window. Gazing at the surrounding area from an elevated level, I could see two newly finished high rise apartment blocks close-by. But less expected, I also saw an area resembling a shanty town. There were dozens of dilapidated houses crammed together, most of their roofs covered with dirty plastic sheets. The contrast of the old and new, the luxurious and shabby was so great that I couldn’t quite adjust my eyes. And all of this within a single block!

Later I asked a local friend: “How can such shabby houses stay next to some of the most expensive developments in the city centre?”

He shrugged: “It’s because we Chinese finally learned about respecting property rights and stopped bulldozing these rickety buildings down to make way for new development. I bet the owners of these houses are too smart and greedy to accept the price currently being offered by the developer. That’s why they are still there.”

Upon hearing this, I made a mental adjustment. Over the years I have regretted and sometimes even resented the disappearance of old Chinese architecture, and the relentless rise of modern skyscrapers.

But in this situation, I felt the opposite. I have to confess that I’d rather see the shanty town replaced. Not all things old are worth keeping. And not all new property development is bland, boring or out-of-place.

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, where she has honed her bicultural perspective. If you’d like to ask her a question, send her an email at askmei@weekinchina.com
Growing quickly

‘Golden Spear’ wants to supplant Viagra

High speed railways, low-cost handsets – and now drugs for erectile dysfunction.

The list of cheaper technologies that China wants to supply to the rest of the world took an intimate turn last week when the makers of Jin’ge – a Viagra equivalent – announced plans to start selling overseas.

Jin’ge – literally ‘Golden Spear’ – appeared in shops last October, shortly after Pfizer’s fourteen-year patent had expired in the Chinese market.

Last week Guangzhou-based Baiyunshan Pharmaceutical Holdings announced that sales had reached Rmb700 million ($109.56 million) – more than half way to its target of Rmb1 billion a year by 2017.

Success at home is encouraging the pharma firm to go international.

“We have started applying for sales of the medicine in several countries and regions, as global demand is huge,” deputy general manager Wang Wenchu told local press.

Golden Spear is about half the price of Viagra, which is known colloquially as Wei Ge or ‘Mighty Brother’ in Chinese.

Jin’ge was the first chemically similar version of Viagra to be released in the domestic market but there are other companies offering erectile dysfunction drugs with the same sildenafil ingredient.

In fact Pfizer had to fight hard to keep the company’s patent for the full fourteen years. In 2004 it lost patent protection after a challenge from a group of local drug makers. Two years later a court in Beijing reinstated it. Viagra also serves as a cautionary tale for Western companies seeking to trademark their product names in China. By the time Pfizer got round to registering Wei Ge as the brand’s Chinese language name, local companies had already claimed it.

Officially Viagra is now known as Wanaike, which translates loosely as ‘make love 10,000 times’.

In spite of its local difficulties, Viagra still has the largest market share, even with rapid rise of Jin’ge.

Studies have suggested the Chinese market is large enough to incorporate several players. A high incidence of cigarette smoking, plus an aging population, means that demand is growing.

Last year a survey of the nation’s sex life got straight to the point by asking men if they were “hard like cucumber” or “soft like tofu”. A little over half (55%) reported the former.

The domestic media returned to the same theme last week, estimating that 127 million men over the age of 40 suffer from erectile dysfunction, but that many younger men suffer from it too, with work and economic pressures cited as two contributing factors.

Traditionally, Chinese men wanting a little more oomph have opted for herbal remedies made from crushed tiger bones. And for those that still prefer a natural boost before bedtime, Baiyunshan has its own herbal remedy called Tie Ma or ‘Iron Horse’.

Not a winter of discontent

“Beijing just embraced the first snow of the year, which indicates the advent of winter, but I believe that for Lenovo we are ushering in a more brilliant season and the hardest time has become history”

Lenovo boss Yang Yuanqing tells CBN that the worst is over for the PC and smartphone maker after a $714 million loss (its first quarterly loss in six years). Yang said the company will grow smartphone sales in emerging markets, sell more servers to Chinese corporates and cut 5% of staff.
Some of the places referred to in this issue:

- Beijing
- Shanghai
- Nanjing
- Hong Kong
- Hangzhou
- Guangzhou
- Dongguan
- Chengdu
- Beijing

Winter is coming: heavy snowfall blanketed the Great Wall of China and the nearby capital city Beijing over the weekend.

In Numbers

**55%**
Fall in reported profits in the first six months for Hong Kong-listed cosmetics retailer Sa Sa International. Its boss Simon Kwok said “Overall, Hong Kong’s tourism has been losing its competitiveness gradually”.

**30%**
The percentage of global luxury spending in 2014 that was made by the Chinese, up ten-fold from 2004, according to the Financial Times. But consultancy Bain & Co expects a 2% contraction this year in domestic luxury sales.

**50 million**
The number of citizens China intends to ‘pull out’ of poverty by 2020, according to a statement from the Chinese Communist Party on Monday. At the meeting it was declared that 700 million rural citizens have risen from poverty since Deng Xiaoping’s ‘Reform and Opening Up’ programme began in 1978. In 2014, China’s rural poverty line was drawn at those making less than $438 a year.

**12%**
The percentage of Peking University graduates who joined start-ups in 2015, up from 5% in 2004, according to McKinsey.

**6%**
The percentage of Chinese holding a passport, according to the Financial Times.

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