Frozen out

Gree’s longtime boss gets demoted as state shareholder revolts over her push into electric cars
Disagreeing with Dong

Powerful boss demoted as state shareholders block bid for Yinlong

With Midea taking over the German robot maker Kuka and GE Appliances now a unit of Haier, China’s white goods firms have become a major force in the country’s global M&A spree.

About 10 years ago the most acquisitive firm in the sector was Greencool. It was founded in 1992 by Gu Chujun, when he patented a freezing agent for fridges and air-conditioners. In 2001 Greencool took over Guangdong Kelon, then the leading refrigerator maker (and based in Shunde, where Midea is also headquartered) plus several of its rivals in other provinces. Gu was viewed as something of a corporate wunderkind and the scientist-turned entrepreneur also ventured into the auto industry with the acquisition of three carmakers. But Greencool’s expansion pitted the Jiangsu native against businesses owned by local governments. Rivals accused him of embezzling state-owned assets and his private-sector empire unravelled. He was detained in 2005 and later sentenced to 10 years in jail for crimes including falsifying his accounts.

Kelon then became a takeover target once more. In 2006 it was purchased by Hisense. After early release in 2012 Gu insisted that he was an innocent victim of the guo-jinnintui trend (‘the state advances, the private sector recedes’) and he filed lawsuits against several firms including Hisense, seeking Rmb48.9 billion ($7.1 billion) in compensation. The claim was rejected.

Gu’s case is worth recalling at a time in which another business leader in Guangdong’s white goods sector has been embroiled in a power struggle with the local government. The Zhuhai authorities – shareholders in Gree Group – said this month that they had decided to remove the company’s chairwoman Dong Mingzhu from the top post, although she will stay on as boss of the state firm’s listed...
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unit, Gree Electric. Dong’s demotion follows a major falling out with the Zhuhai government over Gree Electric’s planned expansion into electric vehicles. Onlookers now wonder what’s next for the air-conditioning giant.

Who is Dong Mingzhu?
The 62 year-old has a reputation as one of the toughest businesswomen in China. Born in Jiangsu, Dong was working as a junior government official in Nanjing when her husband died. In 1990 she quit her job and took her eight year-old son to Zhuhai where she joined Gree as a salesperson. Gree was then a struggling maker of air-conditioners and the inexperienced Dong was sent to some of the least-promising sales territories. But the single mother always came back with big orders and by 1992 she was responsible for one eighth of Gree’s sales.

Dong was promoted to head of sales in 1994, with Gree still in poor shape. It faced fierce competition from other air-con makers, and many of its senior executives were jumping ship to more diversified rivals. Gree lacked resources. At one point, according to China Business Journal, Dong and a group of 20 salespeople had to face the 1,000-strong sales force at then-market-leader Chunlan Air-Con, which was based in Jiangsu.

Dong was credited with instilling fighting spirit at the Zhuhai-based firm. With hard work and a more disciplined focus, Gree prospered, growing into the undisputed leader in the air-con business, and today occupies nearly 40% of the industry’s market share.

(Chunlan has almost dwindled into insignificance).

Dong was promoted to become chairwoman of Gree Electric in 2007 and five years later she became the head of the parent group as well.

What’s special about her removal?
As of this week Shenzhen-listed Gree Electric was reporting a market value close to Rmb150 billion (that compares with Midea’s Rmb180 billion). Sitting on a cash pile of nearly Rmb100 billion, Gree is well resourced for a series of M&A deals. But Dong is unusual in her industry. Some of her rival bosses have become billionaires. The founder of Midea, He Xiangjian, for one, now sits on a controlling stake in Midea and CBN estimates that He is worth Rmb65 billion. Meanwhile, Zhang Ruimin, the chief executive at Haier, has attained political prominence as a member of the Party’s high-powered Central Committee. Politically, Dong isn’t even a Party member. Business-wise, she has taken on the role of a professional manager. Her holding in Gree Electric is relatively small at 0.74% – versus an 18% stake held by Gree Group, the state parent under the Zhuhai government.

That’s meant Dong’s control over Gree has proven more vulnerable, despite her contribution to the company’s growth. Tellingly, a notice from the Zhuhai branch of Sasac, the agency that manages state-owned assets, was the method used to demote her from the top job at Gree Group. Onlookers are wondering if this is undeserved treatment for a loyal and outstanding servant, Southern Metropolis Daily notes. But the bigger question is whether Dong’s chairmanship of Gree Electric is also under threat.

What triggered the move?
Competition among the leading white goods makers has intensified and all the leading firms are positioning themselves to respond to the State Council’s call for the development of ‘powerful Chinese brands’ and the ‘upgrading of the country’s manufacturing sector’. That’s one of the reasons why Midea’s buyout offer for Kuka and Haier’s takeover of General Electric’s white goods unit has had such strong support (see WiC339).

Dong has been telling her shareholders that it is almost impossible for Gree Electric to squeeze out higher profit margins or grab much more market share from its air-con core business. Thus she wants to take the company in new directions,
and Gree has been diversifying into making smartphones and, more recently, electric vehicles (EVs).

However, the plan to start making EVs has seen Dong run into opposition from other shareholders – most notably, the Zhuhai government. In March this year Gree unveiled a Rmb13 billion deal to take over the Zhuhai-based electric vehicle maker Yinlong, as well as its New York-listed battery producer Altair. The bid was part of Dong’s plan for a strategic overhaul. Demand for air conditioners has softened, leading sales to plummet 30% last year. But the proposal was blocked by shareholders. The setback left Dong furious, and she berated investors at the company’s annual meeting (see WiC345).

Opponents of the deal have been briefing the press that they want Gree to refocus on its core business, and boost profits there. Some shareholders were concerned that Gree was overpaying for an unproven carmaker (coughing up nearly 30 times Yinlong’s earnings). And according to CBN, the Zhuhai government – which controls almost a fifth of Gree Electric via Gree Group – was the most cautious about how the deal would be financed: via a Rmb10 billion placement in Gree stock.

Also potentially an issue: Dong was proposing to chip in Rmb1 billion personally in the placement. If approved, her stake would be nearly doubled to 1.3%.

A week after the initial proposals for the Yinlong bid were vetoed, Dong was relieved of her role as chairwoman of Gree Group and the takeover plan was scrapped.

Is Dong too outspoken for her own good?
The news of Dong’s demotion, first announced on November 11, was deemed shocking enough it even drew media attention away from e-commerce giant Alibaba’s Singles’ Day event on the same day.

“She is an internet celebrity in her own right,” Beijing Youth Daily commented. “Now she has morphed from the queen of sales into the queen of news headlines.”

In fact Dong has been increasingly high-profile since taking over as the boss of Gree Group in 2012. For instance, in late 2014, she made headlines for trading barbs with Xiaomi’s chairman Lei Jun over their respective business models, including a widely-discussed Rmb1 billion bet about whether Xiaomi’s sales would overtake Gree’s within five years (see WiC266).

Indeed, Dong is such a magnet for publicity that she even decided to dispense with Jackie Chan as a company ambassador. That had nothing to do with the so-called ‘Jackie Chan curse’ (see Page 13) but more because Dong concluded she could do a better job. “Spending Rmb10 million [a year] on Jackie Chan is too expensive. It won’t cost a single penny if I do it myself,” she said. These were calculated moves but not just for marketing purposes, Beijing Youth Daily reckons. Another outcome was that the public has the perception that Dong and Gree are indivisible.

As she put it herself: “There would be no Gree without Dong Mingzhu; and there would be no Dong Mingzhu without Gree.”

A boardroom struggle?
Gree Electric’s management has a history of feuding with its state-backed parent. In 2005, Gree Group
Talking Point

sparked the so-called “battle of father and son” when it proposed to develop new product lines such as rice cookers and microwaves under the Gree brand. Ironically in light of this month’s row, Dong and her long-time mentor Zhu Jianguang, who was chairman of Gree Electric, opposed the diversification plan because they feared it would distract from the group’s core air-con business. Eventually the Zhuhai government conceded and the battle ended with Zhu becoming Party boss and chairman of Gree Group.

Relations at the top were unsetttled again in 2012 following Zhu’s retirement. According to Beijing Youth Daily, the Zhuhai government “parachuted” Zhou Shaoqiang, a government official with no affiliation with the company, into the key role as Party boss of Gree Group. Zhou was nominated as a director of Gree Electric as well but the appointment was blocked by other shareholders such as the Yale Endowment (see WiC154).

The bickering was overshadowed when Zhou became one of the first officials to be disgraced by Chinese President Xi Jinping’s austerity campaign. Zhou was photographed at an extravagant dinner in close proximity to 12 bottles of expensive wine. He was removed as the chairman of Gree Group and succeeded by Dong.

Another Vanke saga is ahead?
The removal of Dong from Gree Group’s top post suggests that the Zhuhai government is trying again to have a bigger say. It may have good reason for feeling insecure. With a structure similar to Shenzhen-based property developer Vanke, Gree Electric’s shareholding is fragmented, leaving it more open to outside challenge.

The respected market commentator Pi Haizhou believes a boardroom struggle like the Vanke saga (see WiC302) is possible and he says that other shareholders are worried about the potential for instability if Dong is forced out completely. “Investors will worry that Gree Electric could become another Vanke if Dong is also sacked from her post in the listed firm,” he writes in his blog.

Could a disgruntled Dong quit on her own accord, and then head a hostile takeover bid? The confrontation would be a fiery one, and Sina Finance says that other firms are rethinking the relationships between state shareholders and their professional managers, such as Dong and Vanke’s Wang Shi.

“Compared with the jailed Gu Chujun, Dong Mingzhu and Wang Shi are much luckier. At least they are likely to have a very respectful ending. After all the years of hard work they have enough wealth and connections. They can enjoy a well-off lifestyle, they can preach their management philosophy among fellow entrepreneurs and they will stay in the media limelight,” Sina observes. “But their ending [losing control of the firm that they helped develop] is a sad one for Chinese companies. This is a tragedy for the many Dong Mingzhuses as well.”

Mahjong masters

There’s something embarrassing about losing a game on your home ground. So it must have been particularly humbling when the world’s first Sichuan-style Mahjong Championship, held in Sichuan, was won by a woman from Beijing.

The event was organised by the Mahjong International League (which was, surprisingly, founded in Switzerland) and brought together almost 10,000 players from over 30 countries.

After two months of qualifying rounds conducted online the competitors were whittled down to 200 finalists, who battled it out in person over a three-day event in Chengdu.

Sichuanese mahjong is played in a more simplified style, although the cash prizes were still substantial. The winner, Wen Yao, took home Rmb200,000 ($29,000) and even the players who finished in some of the minor places made some money. Gambling on

the outcome of mahjong games is illegal in China, of course. And as the Mahjong International League has been keen to point out, the best players at the tournament in Sichuan triumphed as a result of their skill rather than their good fortune.
Say goodbye to the TPP

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

1. Donald Trump has confirmed that he will withdraw the US from the Trans-Pacific Partnership: an international trade deal instigated by the Obama administration. China, which isn’t part of the pact, regards the grouping as an American effort to exert influence in Asia and so is likely to welcome Trump’s decision. However, an op-ed in the Global Times has expressed concern that Trump’s ambitions for a more isolationist America could damage US-China relations.

2. The English Premier League is selling the Chinese broadcasting rights for its matches to PPTV, a video streaming service owned by Suning (which bought a controlling stake in Inter Milan earlier this year). The deal is tipped to be worth $700 million and would be the League’s largest overseas sale to date, the BBC reports.

3. A 56-car pileup in Shanxi province has killed 17 people and injured 37. The collision appears to have been caused by bad weather; dashcam footage from one of the cars in the crash shows thick fog had caused extremely low visibility. The World Health Organisation estimates that over 250,000 people die from traffic accidents each year in China.

4. Alibaba is planning a Rmb2.1 billion ($300 million) investment in supermarket chain Sanjiang Shopping Club, Reuters reports. Sanjiang will issue exchangeable bonds to Alibaba, and the e-commerce giant will acquire a further 9.3% stake via share purchases.

5. The former president of Daimler’s truck and bus division in China was removed from his post this week following allegations that he had made racist remarks about the Chinese and assaulted observers with pepper spray during a row over a parking space. Daimler has apologised for the incident.

6. Fosun will invest $185 million for a 16.7% stake in Banco Comercial Portugues – Portugal’s largest publicly traded lender by assets. Fosun intends to increase its stake to roughly 30% in the future, the group said in a statement, and says that the investment will help extend its business reach in Europe and Africa.

7. Facebook had developed software that could allow a third-party company to censor information shared on its pages, employees have told The New York Times. The programme seems to have been designed to facilitate a Facebook platform in China, although the Times notes there is no indication it has been offered to the Chinese.

8. Filipino president Rodrigo Duterte has decided that contested territory around the Scarborough Shoal will become a fishing-free zone, despite The Hague ruling this year in favour of his country. Duterte’s suggestion is that no one should be entitled to fish there to calm tensions. Beijing is pleased but a spokesperson with China’s Foreign Ministry reiterated its sovereignty over the area “has not and will not change”.

Guo Guangchang, chairman of Fosun

Suning gets the EPL, and it already owns Inter Milan

Photo: Reuters
As he began his march towards the White House, Donald Trump rallied his supporters around a number of common enemies, but none were bigger than China. China was accused of “raping” the country and stealing jobs from the American people that he, Donald Trump, intended to win back.

“I beat China all the time. All the time,” he told the crowd when he announced his candidacy. “I own a big chunk of the Bank of America Building at 1290 Avenue of the Americas, that I got from China in a war,” he later bragged. But as the New York Times points out, what Trump presented as a victory was in fact more of a consolation prize.

In 1994 Trump was on the verge of bankruptcy and couldn’t find the money to make the repayments on a Manhattan property site. His salvation came from a number of Hong Kong property moguls, who agreed to buy the land, finance the development, and give Trump 30% of the profits.

Eleven years later, the Hong Kong partners sold the property for $1.76 billion, and Trump reacted by suing them for $1 billion, claiming he hadn’t been consulted on the deal. After a four-year legal battle, a court ruled against Trump, but found he was entitled to 30% of the profits from two other buildings that had been bought with the proceeds of the sale: the Bank of America buildings.

Although not an outright victory, this saga did end quite favourably for Trump. But his dealings in mainland China have been much less successful. In 2008, for example, Trump signed a partnership with China Evergrande to develop a range of luxury accommodation. He brought along his daughter Ivanka to the signing ceremony as well, ThePaper.cn reports. The partners never developed any projects as Evergrande soon ran into a debt crisis (although it has rebounded to become the second biggest homebuilder in China in terms of sales).

Another false start came in 2013, when the Trump Hotel Collection (THC) agreed to brand and manage a development owned by China’s State Grid. This agreement fell through when State Grid was found to have a zoning problem with the project: it had acquired a permit to build a research and development centre, but then began building a real estate complex, Quartz reports.

THC is, however, still eager to expand its presence in China. At the recent Asia-Pacific Premier Hospitality Conference in Hong Kong, CEO Eric Danziger announced that the company would be pushing further into the Asian market, with China the core of its growth. The group hopes to erect Trump Hotels in 30 of China’s biggest cities, ThePaper.cn reports, introducing its latest hotel brand, Scion, targeted to lower-tier cities.

Paving the way for this expansion is the conclusion of a decade-old legal battle that will finally give Trump the right to carry out construction in China under his brand name. The debacle began in 2006 when Trump applied for a number of trademarks across a range of business lines. His application for a Trump trademark covering construction work was rejected by the State Administration for Industry and Commerce (SAIC) because two weeks prior a local man named Dong Wei had applied for the same Trump trademark.

In 2009 Trump appealed against the SAIC ruling, taking his case to the Beijing First Intermediate People’s Court, which upheld the SAIC’s findings, and then to the Beijing Higher People’s Court, which again ruled against him in 2015. Undeterred, Trump refiled his application, and it was provisionally approved on November 13, just four days after his election win was announced. If no one objects during the 90-day notice period, the ruling will be carried.

After 10 years of legal wrangling, this may be indicative that, in China at least, Trump’s business interests are benefiting from his political ascendance. According to NBC News the Donald has 20 ongoing trademark disputes with Chinese authorities. Of the 53 registered trademarks under the Trump name in China, the Wall Street Journal reports that only 21 are owned by Trump (trademarks for explosives, poker cards and condoms are among the 32 owned by others). It will be interesting to see if the Chinese courts rule in the future president’s favour in the ongoing cases.
Visitors to Hong Kong from mainland China used to line up in the shopping districts in their hundreds, desperate to get their hands on luxury handbags. But more recently, they have been waiting in line for something rather less flashy: insurance coverage.

The trend has become a concern for China’s foreign exchange regulators because so many of the visitors seem motivated by moving their cash offshore. And at the end of October the queues were even longer than normal, after speculation that the Chinese government was about to clamp down on the practice.

Sure enough, it then made its move, trying to reduce the outflow with new restrictions on how customers use UnionPay to pay for their insurance coverage.

The state-controlled bankcard issuer said cardholders would no longer be able to use their plastic to buy insurance products with investment or saving elements, which have been the bestsellers in the booming Hong Kong market.

UnionPay also acted earlier this year to slow the flow, when the payment service provider announced that purchases of insurance products overseas would be capped at $5,000 per transaction (see WiC313). But the curb wasn’t very effective. “All you need to do is to swipe the bankcard several dozen times,” Hong Kong’s Apple Daily later explained, and Bloomberg has cited one example in which an insurance salesperson swiped a single card 800 times.

Demand for the insurance deals is underpinned by the appeal of the Hong Kong dollar, which is linked to the greenback. Over the last month, the Chinese central bank has been weakening the daily reference point for the yuan’s trading against the dollar, which has fallen to an eight-year low. With further declines expected, Hong Kong’s insurance market is awash with cross-border capital. According to the Financial Times, sales at UK-based Prudential were up by more 58% in the first half of 2016 and Hong Kong now accounts for more than half of its total sales in Asia, compared with a fifth five years ago. About half of current sales at AIA Group, which is listed on Hong Kong’s stock market, are also being generated by Chinese visitors.

An insurance insider told WiC that mainland investors have preferred investment-linked polices denominated in foreign currencies. This segment of the market is likely to be affected by the latest restrictions but visitors are still allowed to purchase general insurance products (such as healthcare or accident) with their UnionPay bankcards.

They can also pay for investment-linked insurance with bankcards issued by the likes of VISA and MasterCard, although only a small percentage of mainland Chinese have these cards.

UnionPay’s previous clampdown in March did little to slow demand and official data suggests that cross-border purchases climbed 1.4 times to HK$16.9 billion ($2.2 billion) in the third quarter of this year, accounting for nearly 40% of new policies issued in the city. “Many mainland Chinese feel more secure if they are insured in Hong Kong,” Oriental Daily notes, with WiC’s local source insisting that there is huge appetite for health insurance. The belief is that Hong Kong-based medical policies are more reliable than domestic schemes, and typically their premiums are lower than the mainland providers.

China’s central government has a more benign attitude to offshore purchases of this type because they are non-speculative and have clearer social utility. By contrast, the investment-linked products are seen as preferred routes for capital to leave the country, and more insidiously for black money to escape offshore too. Hence China’s insurance regulator has been visiting foreign insurance firms and intermediaries in Beijing as part of the review of the illegal sale of products in Hong Kong, Shanghai Securities News has reported.
The redback retreats

Trump’s election victory is triggering a slide in the yuan

When Donald Trump hit the campaign trail hard last summer, he spent a few moments at one of his rallies refuting the notion that he wasn’t keen on the Chinese.

The property mogul was referring to a purchasers of one of his most expensive apartments, however, plus the country’s largest bank, which has an office in Trump Tower. “No, I love China”, he reflected, in a stump speech that suggested the opposite (for more on his views on China, see page 7).

Trump’s worldview is starting to come into sharper focus as he waits to take on the presidency and the impact is being felt in the currency markets, where the yuan has deepened its dive against the dollar.

Much of the decline is down to expectations that spending from Washington is going to increase, forcing the Federal Reserve to tighten monetary policy earlier than expected.

China’s economy has also been growing at a slower rate, and many analysts say the yuan will drop further until its fundamentals improve.

One of the alternative interpretations is that Beijing is exploiting the political paralysis that has followed Trump’s victory by driving the yuan down on the sly and pushing its decline against the dollar to more than 8% over the last year.

China’s economy has also been growing at a slower rate, and many analysts say the yuan will drop further until its fundamentals improve.

The inference is that the Chinese government is helping its exporters with a weaker renminbi and it’s true that the Chinese central bank has been lowering the daily reference rate around which the yuan is allowed to trade (for the 12th consecutive trading session on Monday), helping it fall to its lowest value against the greenback in eight years.

The problem with this claim is that China has spent more than $500 billion of its forex reserves trying to prevent the yuan from depreciating further over the last year.

Nor would it seem to make much sense to drive down the yuan so deliberately in the period immediately before Trump takes office, serving as a red rag to a bull. After all, the longer-term prospects for the exchange rate hinge on whether he follows through with his promises to levy 45% tariffs on China’s imports, and label the Chinese as currency manipulators.

So far, there has been little indication that he will deliver on his campaign diatribes and China’s newspapers doubt that he will go through with his promises.

“Trump as a shrewd businessman will not be so naïve,” an editorial in the Global Times argued this month. “None of the previous presidents were bold enough to launch an all-out trade war against China. They all opted for a cautious line since it’s most consistent with the overall interests of the US.”

If Trump does declare economic war, he will argue that the Chinese have more to lose because their exports to the United States made up about 40% of China’s total trade surplus last year. But both sides would suffer terribly in trade terms and the political atmosphere would turn poisonous. Flows of foreign investment into China would dwindle and the pressure to get capital out of the country would pick up. With the balance of payments deteriorating, China’s leaders might rethink their defence of the yuan, guiding it down more dramatically against the dollar or calling a halt to the sell-down of their foreign reserves.

The uncertainty surrounding Trump’s intentions is already making the yuan more volatile, says HSBC’s head of emerging markets forex research Paul Mackel, who is predicting that the markets will be hypersensitive to any of Trump’s comments about China and its currency.

HSBC has also changed its forecasts since Trump’s triumph, predicting that the yuan will drop further against the dollar to Rmb6.90 by year-end, with a decline to 7.20 by the end of next year. ■
Overpacking

The downside to China’s e-commerce revolution: colossal packaging waste

Thirteen minutes and nineteen seconds. That’s how long it took for the first parcel to reach its destination on Singles’ Day earlier this month.

According to the Nanfang Daily, a man from Foshan in Guangdong province ordered a juicer just as Alibaba’s online shopping bonanza kicked off at midnight. Within less than 15 minutes a delivery man was at his front door thrusting a cardboard box into his hands.

It was an incredible feat of logistics and a tangible reminder of how fast and convenient shopping online in China can be. More than a billion orders were generated during Singles’ Day on November 11 and online vendors are expected to dispatch up to 30 billion deliveries this year, as China continues to lead the world in online shopping.

The biggest drawback to this? The country is also drowning in the paper and packaging it produces.

“The final destination of most packaging materials is the garbage dump, as very little of it is reused or recycled. This enormous and sudden influx of products into the permanent waste stream has a profound effect on the environment and, by extension, on human health and safety,” a recent paper in the Journal of Environmental and Analytical Toxicology said.

Chinese delivery companies used 17 million kilometres of packaging tape, 9.9 billion cardboard boxes and 8.3 billion plastic pouches last year, according to State Post Bureau statistics. For perspective: 17 million kilometres of tape is enough to stretch around the earth 424 times, while it requires 20 million trees to make 10 billion boxes.

Academics estimate that roughly half of the cardboard used by China’s e-commerce sector gets recycled but that the plastic and styrofoam largely ends up in landfills.

“We should call on courier companies to start using environmentally-friendly packaging materials as soon as possible. Some of the material they use at the moment, like PVC tape, takes over 100 years to breakdown,” Xinmin Evening News quoted one expert as saying.

Part of the problem is that vendors are responsible for the goods until the buyer signs for them, encouraging them to overwrap to prevent breakages. Another issue is that there is no way for a customer to ask for less packaging on shopping sites like Taobao and Tmall. There is only a chance to request more and when customers receive their goods “well wrapped and nicely presented” is a category they can tick to evaluate the vendor’s service level.

Yet increasingly Chinese customers are getting fed up with the problem of over-packaging. Social media abounds with photos of tiny items sent in large boxes wrapped in swathes of bubble wrap and after this month’s Singles’ Day many people posted such images of empty boxes hashtagged “aftershock of 11.11”.

“Shopping online isn’t so convenient when you consider how much you have to carry out to the bin,” wrote one netizen on Sina Weibo. Another said she felt guilty looking at all the waste.

Greenpeace, which says Singles’ Day is a “disaster for the planet” wants Alibaba to do more to collect and recycle the boxes its vendors and in-house courier services use.

It notes that Alibaba’s boss Jack Ma has spoken about climate change and environmental protection in the past.

But even if Alibaba doesn’t do anything, new laws may force it to respond. This week Caixin Weekly reported that regulators have drafted a waste-sorting policy and that will be debated in the coming weeks.

The paper said the proposed law will introduce new standards for collecting, sorting and recycling rubbish. However, it added that a “major sticking point” is the plastic tape used to seal delivery boxes. The tape is hard to remove and jams up recycling machinery. It is also one of the main reasons for China’s low cardboard recycling rate.
Back in 1984, it would have been easy to understand why SAIC Motor Corp was dubious about the sales prospects for Audi. At that point, only 3.2 Chinese in every 1,000 owned a vehicle. The height of their consumer aspirations was a Lada or a Volga, since most cars in the country were being imported from the Soviet Union.

SAIC opted to manufacture Volkswagen’s Santana brand instead and the sector’s first major Sino-foreign joint venture was born that October. Over the next three decades it was a decision SAIC would come to regret, for in 1990, Volkswagen (VW) was courted by SAIC’s state-backed rival FAW Group. Together the two built VW’s luxury-car unit Audi into China’s top-selling premium brand.

More recently it seems to be Volkswagen’s turn to harbour regret about its tie-up with FAW.

The Jilin-based state firm has been hampered by some very public problems over the past few years. Its longstanding chairman Xu Jianyi was arrested in March last year and he pleaded guilty to corruption charges in September. Mired in the scandal, the long-touted restructuring of FAW’s numerous local brands has been further delayed.

Industry watchers have, therefore, not been surprised by the news this month that VW and SAIC have signed a memorandum of understanding on new cooperation on top of their existing JV, paving the way for the biggest Chinese automaker to build and sell Audi vehicles in the country as well.

FAW’s dealers, on the other hand, are furious at the move and have penned an open letter complaining their interests will be seriously damaged by the establishment of a rival sales network.

According to the Wall Street Journal, representatives from 15 dealer groups, accounting for 150 dealerships, met with Audi’s top executives in China on Monday. If the German auto firm doesn’t call off the plan to tie up with SAIC, the dealers said they would demand “tens of billions of yuan” in compensation for potential lost sales (they worry that the SAIC tie-up will lead to competing Audi dealerships selling models unavailable to them). They have also threatened to refuse to take delivery of new Audi vehicles from December, the Wall Street Journal reports.

FAW is feeling bitter too, with a company insider telling Caixin Weekly its “contribution to Audi’s success in China’s luxury car market as the number one luxury seller for such a long time cannot be overlooked.”

Yet according to the Economic Observer, Audi has its own complaints, specifically the shareholding structure of the current JV: 60% for FAW, 30% for VW, and 10% for (VW-owned) Audi. “According to the annual reports of the FAW-VW joint venture, the Audi brand contributes about Rmb20 billion in earnings every year. But it could only get a 10% profit split... There has long been discontent on Audi’s side,” Economic Observer reports.

This explains why Audi reached out to SAIC. According to EO, there is no guarantee that the automaker will get a 50-50 split in the JV with SAIC, but the German firm is likely to get better than 40-60.

A delegation led by SAIC Chairman Chen Hong arrived in Germany
early this month to fine tune the “investment scale, stock ratios and technology platforms,” according to EO. It says Chen issued a gagging order within SAIC “for fear of how FAW would receive the news”.

Since then, however, the potential partnership – discussions about which began in mid-2015 – has been widely reported in Chinese newspapers.

Audi decided to cooperate with SAIC because of the positive outlook for China’s luxury car market, CBN reports, citing CEO of Volkswagen’s China unit, Jochem Heizmann.

“Audi seeking a new partner will not harm FAW Group Corp at all... On the contrary, the new cooperation will strengthen the business of FAW,” Heizmann tells CBN, noting that the two already had a long track record of working together. According to the newspaper, SAIC is well positioned to handle Audi since the chassis for the VW Phideon, which SAIC already manufactures, is closely related to the Audi A6 sedan.

Audi remains China’s biggest luxury car brand. But it looks more than a coincidence that the German firm’s overtures to SAIC began shortly after Audi suffered its first monthly sales decline after 26 years in China. In May 2015, it reported a 1.4% year-on-year drop in sales.

Audi’s position has been under threat from BMW and a resurgent Mercedes-Benz. In 2014, Mercedes’ sales were just under half of Audi’s in China. That gap has been rapidly closing. In the first nine months of 2016, Mercedes sold 344,791 cars to Audi’s 440,233. Its growth trajectory has remained strong, with sales rising 29.5% year-on-year compared to Audi’s 6.2%.

The improvement is in line with broader market trends. Thanks to a government tax incentive promoting small engines, China’s automobile market roared back to life in 2016. Between January and October, 19 million cars were sold, up 15% year-on-year.

Ironically, Mercedes has partly attributed its greater success to merging two separate distribution channels, enabling it to “speak to its sales network with one voice”. It remains to be seen how Audi will be able to manage two sales channels run by rival companies that may try to undercut each other, although Economic Observer notes that the parent firm VW has already handled such a situation before as it has been making VW vehicles with both SAIC and FAW.

In the short term, Audi’s rival Mercedes has a new and more pressing issue to worry about. Executives are likely to be extremely nervous about a consumer backlash following a road rage incident last weekend involving Rainer Gartner, the President and CEO of sister company Daimler Trucks and Buses.

After getting into an altercation over a parking space at a residential compound in Beijing, he is said to have shouted, “I’ve been in this country one year and the first thing I learned is that all Chinese people are bastards.”

The face-off rapidly went viral. One netizen says the German also pepper-sprayed an onlooker who tried to intervene.

Gartner has not commented publicly on the quarrel. Given that neither Daimler nor the police in Beijing have shared details of the incident, it is impossible to know whether the German agrees with the description of events that has been reported in the Chinese media. However, a Daimler official tells Sixth Tone, a news website, that Gartner has now been replaced. “Such an incident in no way reflects the values of Daimler AG and we sincerely apologise for the concerns raised by this matter,” a statement reads.

But as we reported in WiC343, a simple apology may not be sufficient – something that Samsung Electronics has recently been learning to its cost. Chinese consumers are becoming increasingly nationalistic and know the potency of their growing spending power. They threatened to boycott the South Korean company’s products after a perceived snub over China’s initial omission from the global recall of exploding Galaxy Note 7 smartphones.

Likewise, Sixth Tone says Mercedes now faces a similar backlash from disgruntled Chinese. It quotes one netizen: “I just decided to buy a car, but based on the company’s attitude to the issue, Benz will be excluded from my list.”

Mercedes-Benz celebrates one millionth car produced in China
In 1980 Jackie Chan first attempted to break into Hollywood with *The Big Brawl*. But the Hong Kong star found it hard to adapt his martial arts style to the choreography of a typical American fight sequence and the film was a flop.

According to Southern Weekend, this setback almost derailed Chan’s prospects. He subsequently met Steven Spielberg to talk about a potential cooperation but the meeting only lasted for five minutes. Because of his broken English (it’s considerably better now), *The Today Show* cancelled an interview with him at the last minute too.

Chan concluded that *The Big Brawl* failed because the director Robert Clouse wouldn’t allow him to direct the film’s action scenes the way he wanted. For the rest of the 1980s, Chan worked instead in his hometown Hong Kong, churning out Cantonese-scripted kung-fu comedies. (Though funny, the films were not without risk – his stunt team reserved rooms in a local hospital to treat injured crew – Chan himself suffered multiple bone fractures during filming).

In 1995 the action-comedy star finally got his Hollywood breakthrough with *Rumble in the Bronx*. That was followed by the huge blockbuster success *Rush Hour* in 1998. Today Chan is arguably the most famous Chinese actor in the world and Forbes magazine estimates he was the second highest paid actor last year behind Robert Downey Jr.

Earlier this month Chan got the ultimate recognition: an Academy Award. The 62 year-old was one of the four veterans who received honorary Oscars for their career achievements.

“Standing here is a dream,” Chan said as he received the iconic statue from Sylvester Stallone. “After 56 years in the film industry, making more than 200 films, breaking so many bones, finally this is mine.”

The Los Angeles Times reckons Chan's award was partly motivated by the Academy’s attempts to improve diversity within the Oscars (in recent years there have been criticisms that the winners – particularly the leading actors – are predominantly white).

News of the win, however, generated a muted response in Hong Kong. Indeed, Chan has yet to win a best actor award at the Hong Kong Film Awards (which started in 1982).

Regular WIC readers will be familiar with the Jackie Chan bashing that goes on across Chinese social media. In 2010, he was voted as one of Hong Kong’s least trustworthy personalities in a poll. In Taiwan, a series of statues that Chan gave to a museum were returned in a recent high profile snub (see WIC 342). And in mainland China netizens have long mocked the “Jackie Chan curse”, noting how sales of products seem to dip after he has been paid to endorse them (see WIC 187).

So how did Jackie Chan manage to get an Oscar? But why is he so unloved at home?
to become one of the least liked celebrities in Greater China?

The same question is being asked by media outlets abroad and closer to home. On a Quora forum, one Hongkonger responded that Chan has been too keen to curry favour with China’s leaders, which hasn’t endeared him to people in Hong Kong. A classic example: his rant in 2009 that he wasn’t sure if China is suited to a liberal political system, adding that the Chinese people need to be ruled in an authoritarian manner.

Buzzfeed, a news portal, also notes that Chan has been dubbed “the No.1 five pence” (the term for people paid to praise the government online) in China. “Those on weibo know why his post roused such hatred. On Chinese social media – where exposing official hypocrisy is a national sport – nothing makes you lose street cred as quickly as shilling for the government, and those on weibo know that Chan has a history of parroting the Communist Party’s stances on many things,” it suggests.

That seems to be a common verdict across the Chinese internet too. “Politically Chan is very conservative but his personal life is very liberal,” one critic wrote on Chan’s own weibo page, explaining a paradox that hurts the actor on both sides of the border. “His many comments don’t go down well with the political correctness in Hong Kong nor the political correctness among Chinese netizens. Thus many netizens in Hong Kong and China dislike him.”

Despite the apathy over his recent honouring in Hong Kong, Chan’s Oscar coup seems to have got him a bit more credit on the mainland. “Personally I dislike his political stance but he fully deserves his honorary Oscar,” argued one widely discussed post on Zhihu, China’s answer to Quora. “No matter if he is in China or the US, he always identifies himself as Chinese, unlike many Hongkongers,” another observed, touching on an issue that riles many mainland Chinese: the anti-motherland sentiment felt by some of the Hong Kong population.

The award also has some critics

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Full-speed ahead

Lee Ang’s new film *Billy Lynn’s Long Halftime Walk* was controversial even before it was released. The movie tells the story of a young soldier suffering from post-traumatic stress disorder after the war in Iraq (he’s played by newcomer Joe Alwyn, and Kristen Stewart plays his anti-war sister, pictured right). But what is making headlines is that it was shot at 120 frames per second, five times the speed of a standard format. The accelerated speed delivers ultra-high definition, making the images on screen eye-poppingly vivid. “As a viewer, it felt like reading a book in which all the commas and periods had been put in bold and underlined,” explains Daniel Engber in Slate.

Reviewers say that Lee used the technology to capture the full humanity of the film’s characters. He also explained the style as a “new aesthetic” ahead of the first screenings in Hollywood last month.

The technique is so revolutionary, in fact, that most cinemas aren’t equipped to show films in the format. Only a handful of theatres in the United States can manage it. Some of the critics weren’t very accommodating either, calling it “unwatchable” and “visually overwhelming to the point of distraction”. (A standard version has also been released to allow the majority of cinemas to screen it.)

Lee – best known for his films *Crouching Tiger, Hidden Dragon* and *Life of Pi* – has found a more receptive audi-

Stewart: stars in Lee Ang’s Iraq war retrospective

ence in China and the film came in second place – behind *Doctor Strange* – on its opening weekend, taking in $11.7 million in ticket sales. Some of his fans paid well above the odds to watch it in the higher-speed format.

And the critical reception was kinder in China too. On Douban, the movie was given a rating of 8.6 out of 10, compared to 48% on Rotten Tomatoes. “I have never been so close to the characters in a film before. I can even see the blood vessels in the eyes of the actor,” one reviewer raved.
reevaluating Chan’s acting achievements. “His hard work has paid off. Look at the fight scenes in *Pirates of the Caribbean*, his comedy action has clearly influenced mainstream Hollywood,” Beijing Times suggested.

Chan is also the first Chinese actor to have won an Oscar, Global Times noted approvingly.

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### Not so Super
*Badminton star blunders with costly liaison*

The love story between badminton champions Lin Dan and Xie Xingfang is well known in China. When he was only 14, Lin noticed a tall and slender girl at badminton training camp. Although he quickly developed feelings for Xie, he didn’t pursue her until they were both selected for the senior badminton team. In 2004, Lin announced that they were a couple. At the time, their relationship was frowned upon by the authorities, according to Xie, who was a two-time world champion. “The rules of our team dictate that one cannot be in a relationship with a member who has not gained good accomplishment. So when Lin promised he would achieve success for the sake of our love, I was really moved,” she revealed in an interview.

That success soon followed. Lin, now 33, went on to become a two-time Olympics gold medallist (in 2008 and 2012) and he was given the nickname ‘Super Dan’ after winning all nine major titles in the badminton world: Olympic gold, the World Championships, World Cup, Thomas Cup, Sudirman Cup, Super Series Masters Finals, All England Open, Asian Games and Asian Championships.

As the first and only player to achieve this feat, his stardom was assured. His movie-star looks and feisty on-court personality was the icing on the cake (see our profile of Lin in issue 41).

To support her boyfriend’s career, Xie decided to take a step back from the limelight and in 2009 she announced that she would retire from the national team. “I’m willing to be the woman that makes soup for Lin Dan,” she declared.

The two tied the knot in 2012 in a wedding that was widely covered in the domestic media and the press nicknamed them the Condor Couple, after the characters of a Jin Yong novel about an impulsive young warrior and his calming and older lover (Xie is two years Lin’s senior).

Early this month, Lin announced on his personal weibo that the two have welcomed their first child. But the golden couple lost some of their shine last week when a series of paparazzi photos were leaked showing Lin holding hands with model-actress Zhao Yaqi back in October, when Xie was heavily pregnant.

Another set of photos doing the rounds shows the two in a hotel room engaging in more intimate activity and news about Lin’s infidelity has captivated China’s internet. Within 24 hours of the photos going online, they attracted over 500 million comments on weibo – most of which were overwhelmingly negative. “No matter how outstanding your achievements are, you will now only be remembered as a cheater, a man that disregards his responsibility as a father and a husband,” one thundered.

“Cheating on your wife is messed up. But cheating on her when she was pregnant with your child? That deserves a special place in hell,” another wrote.

Many of his fans are deeply disillusioned: “I used to think Lin Dan was a good man. I also believed that the love between the athletes was stronger than most people, because they have been through so much together. But now I don’t believe in anything. I’m so disappointed,” one female netizen lamented.

Hours after the photos circulated, Lin issued a statement apologising to his family, without directly acknowledging the affair.

The next day Xie posted a picture on her personal weibo showing the couple holding their newborn son’s hand, which seemed to suggest that they are going to work through the crisis. “Our family will support this
responsible man and a man who always corrects his mistakes. Thank you for the concern from friends and fans. Our family will be together in the same boat under this adverse weather,” she wrote.

Although his wife appears to be sticking with him, Super Dan’s sponsors may not be so sure. Lin ranks alongside Li Na and Yao Ming as one of biggest sporting stars in China, where badminton trails only basketball, soccer and table tennis in popularity. His income from endorsement deals has boomed over the years, rising to Rmb27.5 million ($3.97 million) last year.

The superstar athlete now endorses brands like Oakley, Dolce & Gabbana and Montblanc. He has launched his own underwear label for men – called Intimate By Lin Dan – and earlier this year he told media he was mulling his own cologne brand too.

But the scandal could stymie many of his plans and Lady Max, a fashion industry website, has reported that two companies about to sign with Lin have already terminated discussions since it erupted.

“The online sentiment [towards Lin’s scandal] is very negative. The brands who endorse him – Dolce & Gabbana, Montblanc, Yonex, etc – are unlikely to respond positively to this news and we expect that there will be serious financial consequences,” Tom Eldsen of Mailman Group, told the South China Morning Post. “Lin has over Rmb150 million in contracts with his sponsors, and we don’t expect them to stand by him. So the financial loss will be considerable.”

Chief Entertainment Officer, a blog, compares Lin’s fall from grace with that of the hurdler Liu Xiang, another sports icon. At one point, Liu, an Olympic medallist, endorsed as many as 17 brands. But after news about his messy divorce made headlines (see WiC288), the number of sponsors dropped to a handful.

“Compared with Liu Xiang, Lin Dan can probably find other opportunities that are not so closely tied with his public persona. But when it comes to endorsements deals and his eponymous brands, taking a big hit is inevitable. In fact, a lot of fans are already clamouring on weibo for the brands to replace their spokesperson,” the entertainment blog reports.

What amplifies the public reaction is that Chinese sports stars – especially Olympians – have been expected to live by an honour code and project a positive public image. “Chinese athletes are [usually] ‘employed’ by the government and are used to promote the success of the nation and themselves as role models. It is in the interest of the Chinese government for these types of scandals not to be uncovered, so it is a rare case,” Eldsen told the SCMP.

Tiger Woods, offers another cautionary tale for the badminton player. The golfer’s image has never recovered from the exposure of his serial infidelities which subsequently led to his break-up with wife Elin Nordegren.

The revelations seem to have played a major part too in destroying the golfer’s previous steely confidence. The result: the formerly untouchable Woods has fallen to a current ranking of 861 in the world (after being number one in his heyday for 683 weeks).
Since Donald Trump’s surprise win in the US presidential election, China’s social media has been even busier discussing America’s leader-in-waiting.

The popular themes have included the vindication of those pro-Trump voters who settled there from China (see my article in WiC343), the pros and cons of his victory for China and the world, and even the news of a Beijing court ruling against him in a dispute with someone who has registered his Chinese name (see page 7).

But the most endearing topic is his adorable granddaughter, who has been learning Chinese since she was 18 months old and can already recite Chinese poetry.

A video posted by Ivanka Trump earlier this year went viral on Sina Weibo and WeChat after the election. In it, her then four-year-old daughter Arabella, in a red Chinese dress and with Chinese holiday decorations in the background, recites two Tang Dynasty (618-907) poems that are well-known to almost all schoolchildren in China.

China’s traditional education relies heavily on memorising ancient classics, especially Tang and Song Dynasty poems, the crown jewels of Chinese literature and often represented as the peak of the country’s cultural development.

Compared with the more complicated Song poetry 宋词, the popular Tang poems 唐诗 typically consist of just four lines, each with only five or seven characters, and they rhyme in the A-A-B-A structure. That has made Tang verse easier to remember for generations of children and there is even a saying 熟读唐诗三百首，不会作诗也会吟, “as long as you are familiar with 300 Tang poems, even if you are not a poet you can compose poems easily”.

The two poems that Arabella recited are Ode to Geese by Luo Binwang 骆宾王 (638-684) and Pity the Farmers by Li Shen 李绅 (772-846).

As one of the ‘Four Paragons’ of the Early Tang, Luo was a brilliant poet, and is believed to have been only seven years of age when he composed the famous Ode to Geese. With a mere 18 characters, he paints a vivid and pleasant picture of a goose floating on the water:

Goose, goose, goose
Bend the neck towards the sky and sing
White feathers float on the emerald water
Red webs push the clear waves.

Composed by Li in his early years, Pity the Farmers eulogises the hardworking farmer in 20 characters:

Hoeing the crops under midday sun
Sweat falls to the soil under the crops
Who would know the food on the plates
Every grain contains hardship and toil.

Somewhat ironically Li became a senior court official in his later life and quickly forgot the virtues of frugality and hard work. One suspects that China’s current leader Xi Jinping would not condone Li’s change of lifestyle. Still, when Xi visits the White House next year for a state banquet, what better welcome could he receive than a few more Tang poem recitals from the Trump Dynasty’s literary prodigy Arabella…
Is everything in Hong Kong now political? That’s what was being asked last week after the Chinese Communist Party’s Youth League started writing about the territory’s Metropolitan Youth Orchestra.

The symphony orchestra, known for holding unannounced concerts in shopping centres in recent years, decided to take it one step further in October with a flash mob performance in the Hong Kong International Airport’s departure hall.

A clip of the performance is now posted on YouTube and mainland video sharing sites, showing an initially small group of young musicians playing the traditional Sichuanese melody *Footprints in the Snow* near the check-in desks. Gradually more and more musicians come out of the crowd to join in, forming a full orchestra.

During the seven-minute medley they rattled through five pieces – in a mixture of mainland Chinese music, Hong Kong pop songs and international tunes.

Yet for the Youth League – an important organ of the Party for influencing its younger members – the flash concert was a symbol of just one thing: Hong Kong’s innate oneness with mainland China.

“Those songs are the shared memories of all Chinese people. Blood flows in the body, melodies are remembered in the mind and culture is engraved in bones. Only Chinese people know how deeply touching this act is,” the Youth League celebrated in a post titled “I am a Chinese”.

The People’s Daily went a step further claiming that many people “cried while watching the clip” although only 200 or so commented on it online.

“Amongst all the damaging talk of independence for Hong Kong, teenagers have their own way to express their true loyalties,” wrote one.

Media in Hong Kong pointed out that the orchestra has played the same medley at all of its flash concerts in recent years and the songs have no special significance – indeed that they could just as easily be interpreted instead as a symbol of Hong Kong’s unique blended heritage, given the foreign pieces.

“The official Chinese media hype it up, causing a lot of false associations in the people’s minds,” the Hong Kong Economic Times complained.

The debate comes at a time when many in Hong Kong feel Beijing is tightening its control over the former UK colony and chipping away at the rights enshrined in the Basic Law – Hong Kong’s mini constitution.

Earlier this month Beijing ruled that two lawmakers were not allowed to take their seats in the Hong Kong legislative assembly because they refused to acknowledge Hong Kong was part of China during their swearing-in ceremony. This week it emerged that a new pro-Beijing youth group – the Hong Kong Army Cadets – had been given a much-coveted piece of real-estate in Kowloon Bay and HK$30 million ($3.86 million) for renovations.

It seems both sides are now playing for the hearts and minds of the next generation.

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**Big shoes to fill**

“We like the US being in the region. But if the US is not there that void needs to be filled, and it will be filled by China”

*New Zealand leader John Key, speaking at the APEC summit in Peru, warning that allowing the TPP trade pact to perish would only open the door for China to promote an alternative. This week President-elect Donald Trump said he would walk away from the TPP on day one in office.*
Photo of the Week

Kapow: performers dressed as Marvel characters during a presentation detailing Disneyland’s $1.4 billion Hong Kong park expansion

In Numbers

3,000
The number of refugees who have fled from fighting in Myanmar to China’s Yunnan province, according to a spokesman for the Chinese Foreign Ministry.

906 million
The size that the Chinese labour force is predicted to shrink to this year, following three years of declines since 2012. Li Zhong, spokesperson for the Ministry of Human Resources and Social Security, predicted the workforce will continue to drop in size until 2050, when it could fall to 700 million.

10%
Evergrande’s current stake in China Vanke. Evergrande has been gradually increasing its share in the country’s largest residential property developer since August, at a time when Vanke has been embroiled in a hostile takeover bid.

$750 million
The size of a proposed IPO by Meitu, the owner of a popular selfie app. The Xiamen-based firm is testing demand for a Hong Kong listing which could be the largest IPO by a technology company in Hong Kong since Alibaba.com’s $1.7 billion offering.