

# Week in China

30 September 2011  
Issue 124  
[www.weekinchina.com](http://www.weekinchina.com)

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## Will eurozone drag China into this?



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# China's eurozone worries

*Beijing ponders whether it can hold 'steady' if Europe triggers crisis*



**“Look, this is serious”:** China's central bank governor Zhou Xiaochuan and IMF boss Christine Lagarde

**S**tay steady to deal with all the changes around you” is a maxim that generations of Chinese Zen Buddhists have practiced.

Beijing policymakers must be pondering it these days too. Last week the escalating eurozone crisis, combined with a remark from the Fed about the deteriorating state of the American economy, were enough to send financial markets sharply lower. The sense of panic was palpable. At the IMF World Bank meeting over the weekend, Treasury Secretary Tim Geithner didn't mince his words. He spoke of “the threat of cascading default, bank runs and catastrophic risk”.

Indeed, with the IMF warning that Europe's banks need recapitalising to the tune of €300 billion

and financial markets pricing in an almost certain Greek default, the mood was grim in Washington. Financial Times columnist Wolfgang Munchau noted: “I have never seen Europe's policymakers as scared as I saw them in Washington last week.”

Amid this storm stands China, one of the last pillars of growth in the world economy. Can it stay “steady” in the midst of the turmoil or will the eurozone drag China into crisis too?

## **Okay, can China build a wall?**

Bloomberg TV has begun to use the descriptor “mammoth” whenever it refers to China's economy these

days. It's a word that conveys a sense of scale and strength. But can the Chinese economy – which has enjoyed double digit growth for the past 30 years or so – insulate itself from events in Europe and the US?

Some take solace from Beijing's track record in managing its economic affairs. “The key thing is that businesses like certainty and the global economy is full of uncertainty,” Martin Cubbon, the CEO of Swire Properties told Bloomberg this week. “The government gives you as much certainty here [in Beijing] as is possible. I'd rather be here right now.”

However, it is also clear that Chinese policymakers are increasingly worried by the downward drift in

the global economy, and that the divisions, dithering and delay in the eurozone has unsettled even Beijing's more unflappable types.

The governor of China's central bank, Zhou Xiaochuan, told fellow delegates at the IMF World Bank meeting at the weekend that "forceful measures" were required to solve the European sovereign debt crisis. Eurozone states needed to "put their domestic houses in order".

Shen Danyang, Ministry of Commerce spokesman, likewise predicted that the consequences of inaction would be dangerous. "As the debt crisis worsens... trade frictions will grow," he said (possibly thinking of similar problems in the 1930s, when escalating tensions drove the global economy into a depression).

Plunging confidence in Europe's ability to sort itself out is also showing up in the Chinese media.

Shanghai Security News told readers that "if the economies in Europe once again go into recession, China's economy may face a greater risk. But if Europe and the US go into severe recession, China's exports will decline 15% and the GDP growth rate will be reduced to 7%."

The newspaper calculates that for every percentage point that Europe's growth falls, China's export growth recedes by six percentage points. Some industries will be particularly hard hit. On a 2% decline in European growth, Chinese shipping firms revenues decline 13%, air transport revenues fall 11% and the telecommunications equipment industry sees a drop of 10%.

China Securities Journal thinks there are "strong expectations" of a global economic recession once again, and that the statistics already show that Chinese corporate earnings are "deteriorating". It notes that net profit for China's listed (non-financial) stocks grew only

9.9% year-on-year in the second quarter, versus 18.9% in the first.

So still growing, yes, but at a weaker pace.

Further evidence of slowdown was evident in HSBC's flash data for September's purchasing managers index: a score of 49.4 compared to 49.9 in August. Any figure below 50 indicates a contraction in manufacturing. In China's cases that almost always means falling GDP growth.

**How can China deal with the crisis?**  
HSBC's chief economist, Qu Hongbin remains sanguine that China

retains sufficient policy options in its arsenal to ride the crisis out. Thanks to the fact that inflation is "cooling" he also sees the government as having more leeway for adjustment. In a note released on Wednesday he forecast: "Beijing can and will respond if there is a new global recession. But we don't expect a repeat of the massive 2008-09 stimulus package."

That's because the Chinese government won't want to "repeat the mistake of over-stimulating the economy, which brought inflation, property overheating and local gov-



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ernment debt risk". Likewise, it helps that Chinese growth is now "much less export driven", and hence less exposed to the diminished wallets of consumers in Europe and the US.

By Qu's calculation: "Net exports made almost zero contribution to China's 9.6% GDP growth in the first half of 2011, implying the impact of a global recession will be much smaller this time."

In fact, HSBC forecasts that Chinese GDP should still grow 8.9% this year and 8.6% in 2012. But any additional spending – to stimulate the economy – will likely be considerably smaller than Beijing unleashed in 2008. For example, he forecasts less than \$200 billion will be required to keep Chinese growth at HSBC's target levels. Should stimulus be required, he suspects more government funds will be spent on public housing and to support small and medium-sized firms.

In fact, Qu's colleague Steven Sun even offers a bullish outlook on China's stock market. HSBC's head of China equity strategy published a report late last week predicting that the A-share market could once again prove to be a leading indicator. In 2008 the Chinese stock market led the global equities rebound (by around four months) and Sun reckons this may happen again, describing valuations as "distressed" and "overly-pessimistic".

Taking a (perhaps) contrarian view, Sun believes the Shanghai Composite Index has bottomed and could hit 3,000 by year-end (it was hovering around the 2,400 level at the beginning of the week). The leadership transition next year, plus an easing in inflation, could also be factors. There was a similar dynamic, Sun points out, in 2002 ahead of the last leadership change.

In the meantime, market senti-



## Planet China

Strange but true stories from the new China

**DEMOCRATIC DEFICIT.** Running a democracy is an expensive business, and all the razzmatazz of a US presidential battle doesn't come cheap: the 2008 election cost around \$3 billion, according to Fortune magazine.

So does China's one party state save the country money? That's proving a source of controversy this week. In an appearance on CCTV, a research fellow with China's parliament, the National People's Congress (see WIC98 for more on this body) made an astounding admission. He said that public funds spent by the government on officials' cars, eating, drinking and travel abroad, came to Rmb1.9 trillion (\$297 billion) a year.

The host of the TV show was so shocked by this figure, that she had to ask "I beg your pardon, how much was it?"

Netizens on Sina Weibo then did the comparison calculation. Annualised over the four year cycle, a US election cost \$750 million a year. That meant for the same cost as paying for bureaucrats and their banquets you could hold the equivalent of 390 US presidential elections in China, annually.

And to further rile netizens, news then broke that the tax authorities in Zhejiang had just spent \$424,000 on a luxury yacht. The bureaucrats said it would be used for tax collection on the province's islands, but most internet critics suspected it would be used for rather more sociable activities.

ment remains fragile. Sinohydro scaled back its Shanghai IPO this week – cutting the number of shares offered as well as pricing at the bottom of the range. The dam builder raised Rmb13.5 billion (\$2.1 billion) which was 22% less than it had initially targeted.

### Some certainty please...

In spite of a relief rally in global markets at the start of the week, it remains to be seen whether Europe's leaders can come up with more concrete plans to contain the eurozone's debt crisis.

In China – like the rest of the world – there is general uncertainty as to what might happen next.

Futures Daily carried out a poll of almost 7,000 local investors. Around 55% thought the eurozone would support Greece – but said that its rescue would be akin to 'gradually heating the water to boil a frog'. That is to say, the measures would delay but not resolve the overall problem.

A further 22.5% thought that Greece would be allowed to default, with an immediate and heavy impact on global markets. The remainder described the current market environment as "very complex and difficult to determine". In truth, some of the smartest investors are also increasingly opting for the latter response these days. Christopher Flowers, founder of private equity firm JC Flowers, told Bloomberg: "The problem is it's impossible to know how it's going to turn out."

In such turbulent conditions, China's leaders have decided their best course is to position the economy – as the Buddhist maxim advises – in the 'steady' category. Indeed this week Li Keqiang – who looks almost certain to replace Wen Jiabao as prime minister next year – made a telling remark about the world financial situation. According to Shanghai Daily he said: "China will contribute to the world by running its own affairs well." ■

# Another crash

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

**1** More than 270 people were injured in Shanghai on Tuesday when a subway train slammed into the rear of another train on a line that opened just last year. The accident, just two months after a fatal high-speed train crash near Wenzhou, has stoked concerns that China's rapid construction of new transport links comes at the price of safety.

**2** The People's Bank of China set the renminbi's official trading range at a new high, suggesting that Beijing will continue to let the currency strengthen despite global economic jitters. On Monday, the central bank fixed the yuan's reference rate against the US dollar at 6.3735, the highest since the government first removed the currency's peg to the dollar in 2005.

**3** A State Department official said Beijing will suspend or cancel some military exchanges in response to the latest US arm sales to Taiwan. The move fell short of a full suspension of military ties. Last year following the announcement of another arms deal for Taiwan, China suspended military contacts with the US for months.

**4** It's "too early" to determine how emerging economies can further help the euro area overcome its sovereign debt crisis because reforms are still under way, China's central bank governor, Zhou Xiaochuan has



**Firemen evacuate a victim of subway crash**

said. He also told reporters that he doesn't expect Greece will default on its debt and anticipates Europe will be able to overcome its crisis through reform.

**5** Sinohydro, China's largest builder of dams, has raised Rmb13.5 billion (\$2.1 billion) from its Shanghai IPO after fixing the price at the bottom of the indicated range. Volatile market conditions saw the offer scaled back from \$2.7 billion. Great Wall Motor, China's top manufacturer of sport utility vehicles, meanwhile fell 8.8% in its Shanghai debut last week after raising Rmb3.96 billion (\$619 million) from its A-share IPO.

**6** Renren, China's leading social-networking site, announced plans to spend \$80 million to acquire 56.com, a video sharing site. According to the China Daily, Renren chose 56.com because more than 90% of its video clips are made and uploaded by its users.

**7** Best Buy, which closed all of its nine stores in China in February, will reportedly return to the Chinese market by reopening a flagship store in Shanghai before the end of December. The US electronics maker will launch more stores in China next year, but the total number will be less than 10. ■



**If at first you don't succeed, reopen in Shanghai**

# Feeling dumped on

## *Why China's keen to get market economy status*

Chicken feet should count as a win-win for Sino-US relations. In America there are few takers for the sinewy fare, much more likely to end up as pet food than on the dining table. But over in China they count as a desirable snack.

Which makes the latest round of chicken confrontation all the more frustrating, following the filing of an American case recently to the World Trade Organisation (WTO) against duties imposed by the Chinese on US chicken imports over the past year. One opinion is that the original Chinese action was tit-for-tat, launched in response to duties levied on their own tyre exports (a forlorn tactic in terms of protecting American tyre manufacturers, as *WiC* noted in issue 31).

China's Ministry of Commerce had responded to the tyre duties with its own: on the sale of American chicken (feet included).

The background here is growing Chinese frustration at how many of these trade cases are put together before they go for judgment at the WTO.

When China joined the WTO 10 years ago, Beijing agreed to be treated as a 'non-market economy' for the next 15 years. The label has an important application in a narrow but contentious area of trade politics – disputes over the 'dumping' of goods at below-market prices.

Because China lacks market economy status, the other party in the dumping argument is entitled to use another country as a "surrogate" to determine whether the prices being charged for Chinese goods are at 'below market' levels.

Proponents say that this is because China's economy continues to benefit from the types of government favour and subsidy that make it impossible to reach an accurate calculation of fair prices for inputs like land and labour.

Instead plaintiffs can look elsewhere for their benchmarks.

This riles the Chinese, who argue that the comparison data overlooks the true competitiveness of the 'China price'. Officials argue too that the current rules give plaintiffs too much leeway to make their case. For example: exporters from Zhejiang province might be accused of benefitting from artificially low land rents. But to get a 'fairer' assessment of what the rental should be, the accuser may then elect to use data from Thailand as the benchmark, despite the major differences between the two countries, their economies and their uses of land.

Or the plaintiff might query the determination of freight costs in the market price calculation, saying that the shipping comes courtesy of subsidised prices from a state-owned shipping line. Then he chooses a higher-priced international provider as an alternative.

Add up all of these higher costs, and it becomes easier to make the case that the price being charged overseas for Chinese shrimps or textiles is lower than the market cost of producing them at home.

China's sense of injustice at the handling of these cases has been growing. In part that is because it feels unfairly singled out. Russia – yet to join the WTO – won market



**No longer welcome: US chicken**

economy designation from Washington in 2002. Further, Western governments have been intervening with trillions of dollars to prop up their banks and bail out their car-makers, blurring some of the boundaries between the free market and the state. Another Chinese grievance is that its economy has changed since accession to the WTO, and should now qualify for market economy status in most areas.

But despite securing revised status in bilateral deals with countries like New Zealand, Malaysia and Thailand, Beijing has not been able to persuade either the US or the EU that its designation deserves a rethink.

Then factor in a growing Chinese sense of having "saved" the global economy in the aftermath of the global financial crisis (with its stimulus campaign). In recent weeks, officials have been donning their saviour suits once again, this time via the debt-ridden eurozone.

True to form, this has also prompted another round of debate on market economy status. An editorial in *Xinhua* was pretty typical in lamenting, "the EU side still shows no sincerity" in the matter.

Officials then denied that any link was being drawn between China's (potential) cash for Europe, and a change to its designation in trade dispute cases. But that doesn't look entirely accurate. With another five years to run, Chinese frustration on this issue looks like festering. ■

# Lenovo's pastoral idyll

*Rural appliances scheme boosted domestic demand. Why end it?*

All good things eventually come to an end, and China's home appliance subsidy programme – aimed at rural consumers – is no different.

Back in December 2007, Beijing unveiled the Home Appliances to the Countryside scheme, which offered a 13% discount to rural residents on the listed price of refrigerators, televisions, washing machines, computers, air conditioners, mobile phones, water heaters, microwave ovens and traditional ovens.

The idea was to get China's 737 million rural consumers spending – and shop they did. Between 2007 and August of this year, rural residents spent a total of Rmb405 billion (\$63 billion) on 180 million household appliance units under the programme. Refrigerator, television and air conditioner sales accounted for 48.3% of home appliances sold, says the Ministry of Commerce.

Thanks to the increase in domestic consumption, appliance makers like Haier and Hisense found new customers for their products. The scheme also helped lesser-known brands break into an untapped market, says International Finance News.

Alas, the subsidy scheme is due to be withdrawn by the end of this year in Shandong, Henan and Sichuan province. The programme officially comes to an end nationwide by early 2013.

Analysts say the move is part of the government's ongoing battle against inflation. "The subsidies were first released to boost the econ-



Using his head

omy amidst the global financial crisis. The idea was to promote domestic consumption to offset the slump in exports. But China's biggest headache now is not growth but how to rein in inflation, so it's no surprise that they are now pulling back on the subsidies," says Lu Renbo, deputy-secretary at China Electronic Chamber of Commerce.

Industry observers now warn that the rural market will likely see a decline in sales and that excess capacity may lead to price wars among manufacturers. Large appliance makers are likely to survive. But smaller operators may find it tougher. Chengdu Evening News reckons that many small producers have derived more than half of their sales via the subsidy programme.

"This is going to have an adverse impact on small- and medium-sized appliance producers. Not only do they have to battle with rising costs, without the support of the government, they now find themselves in much tougher competition. Some might be eliminated as a result," Wen Jianping, an analyst at Orville Consulting told CBN.

Others caution that pulling back on the subsidies is a mistake at a time when the economy is showing signs of slowing. But there are also signs that Chinese outside the major cities have more cash to spend. Rural income growth reached its highest rate in 2010, surpassing the growth of urban disposable income, says the Financial Times. Last year, per capita net income rose 10.9% to Rmb5,919 (\$898) in the countryside, mostly as a result of government policies favouring agricultural production.

Other reasons for growth in rural consumption include an increase in public expenditure on infrastructure projects, making it easier for companies to distribute their products. New housing construction in rural areas has also surged, which means that the number of homes with running water and power – needed to run all those appliances – has also gone up.

No wonder, then, that Lenovo is unfazed by the end of the subsidy programme. China's largest PC maker recently announced that it is opening more than 1,000 stores, many of them in areas traditionally considered as rural counties.

Though difficult to reach commercially, the countryside is "probably still the world's most promising market" in terms of the number of people "who've never owned a PC before, who would like to own a PC and who have that capability," David Wolf, CEO of Wolf Group Asia, a Beijing-based marketing strategy firm, told the Wall Street Journal. ■

# Detroit's unlikely success?

*Insider view on how GM cracked China market, and its electric future*

In a carefully choreographed act, General Motor's board of directors had a high-profile away day last month, gathering in Shanghai for the firm's first ever meeting outside North America.

It was heralded as a symbolic trip, and a signal of China's importance to GM's future.

It already looks like being a more auspicious gesture than at least one earlier effort to impress by the American automaker in China, that time back in 1998.

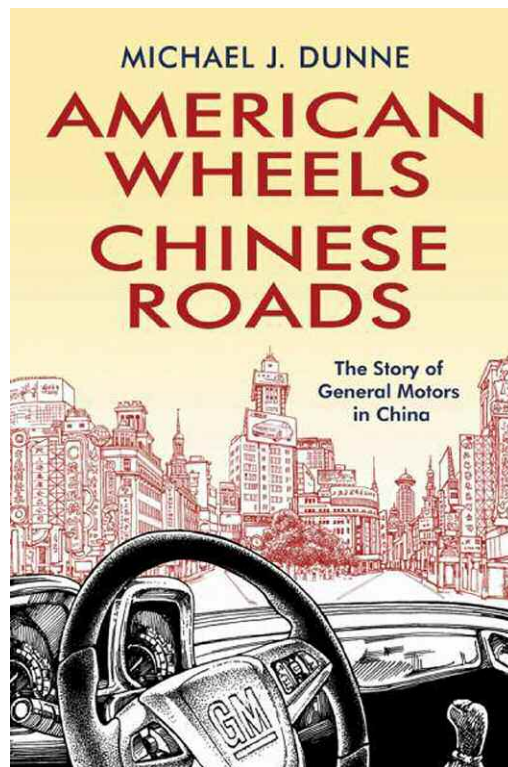
That year Jack Smith, then GM chairman, arrived in Shanghai for the launch of the Buick Century, the first model to be produced by the carmaker's joint venture with Shanghai Auto (SAIC).

The plan was to have Smith at the wheel alongside Shanghai's mayor as the first Buick rolled off the production line.

Looking to release the handbrake, Smith grasped the hood release by mistake. Up sprang the bonnet on the motionless Buick, leaving chairman and mayor to look out in embarrassed fashion at the ranks of assembled press.

The mishap is recounted in *American Wheels, Chinese Roads: The Story of General Motors in China*, a broader review of General Motors first steps into the China market.

Published this year by Michael Dunne, an Asia-based automotive expert who once worked for GM himself, the book is a timely look back at how the American automaker found its feet in the Chi-



nese marketplace.

As Dunne recalls early on, when he started as a GM employee, fewer cars were being sold in China than in the state of Michigan. A generation later and the explosive growth in the Chinese market means it has become a crucial arena for all the international automakers.

In fact, GM is now China's largest foreign vehicle manufacturer with around a 13% share of the market. Last year sales grew nearly 30%, although this year they have slowed, and look like coming in closer to an industry average of 5%.

Still, GM's achievement in China has been impressive. "The fact that GM in China could triumph while its parent company was self-de-

structing is both remarkable and revealing," Dunne writes.

His account offers an excellent overview on how the Chinese market developed, especially the battle between three distinct groups for the spoils: the state-owned heavyweights based in the officially-sanctioned carmaking cities (the 'Six Detroits', Dunne calls them); the upstart (and often unauthorised) challengers from the semi-private sector in rival cities; and the bewitched (and sometimes bewildered) foreign car firms seeking to break into the market through a tie-up with a local partner.

Commercial ties were rarely smooth for the foreign bosses: "Some days it feels like we're just like concubines," one executive remarks at one point in the

book. And once China-based executives did begin to report some commercial success, they were then faced with head office suddenly keen to take fuller control of their Chinese operations, often in an inept manner.

Keeping up with such a fast-moving market would be a challenge for anyone. As Dunne points out, only a little over 10 years ago Chinese consumers still had fewer than 10 different cars to choose from. This year, there were more than 275 options.

And soon there will be at least one more: the Shanghai board meeting was also the occasion for the announcing of another GM joint venture with Shanghai Auto, this time to build an electric vehicle brand.

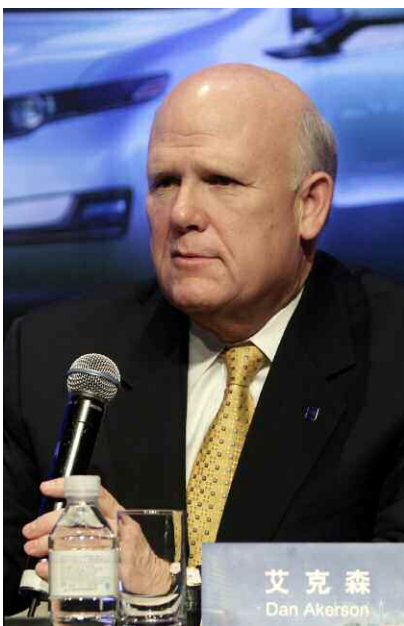
Here there is also symmetry with earlier experience, with Shanghai Auto wanting to benefit from GM's experience in developing the Chevrolet Volt, a plug-in hybrid already sold in the US.

Back in the 1990s, the Chinese were keener on catching up in more conventional technology, and had engineered a beauty contest between Ford and GM for the right to partner with the Shanghai city government in the new joint venture.

Realising what the Chinese wanted to hear, GM took SAIC executives to see its operations in Brazil, and made sure that locals gave all the presentations.

After each meeting, reports Dunne, the Chinese would ask the presenter his nationality. "I'm Brazilian, of course" was always the reply, delighting the visitors, who saw a blueprint for what they wanted in technology and skills transfer at their Chinese plants.

Yet last month's announcement also made clear that GM will be developing a standalone electric vehicle with SAIC, but critically plans to sell the Chevy Volt separately in China. Clearly, GM continues to resist the pressure for the fuller trans-



Driven CEO: GM's Daniel Akerson



Now made in China: General Motors vehicles in Shenyang

fer of technology.

This repeats an earlier pattern, in which GM sought to balance its China ambitions with a cautious attitude vis-a-vis how much the JV should do.

For example, GM's early efforts to build its first small car with Shanghai Auto – the Buick Sail – were awkward ones.

For a start, GM was not set up to build the smaller cars that SAIC wanted to sell in the Chinese marketplace, and certainly not at the price levels that would make them affordable to Chinese consumers.

Instead GM took control of a Daewoo unit in South Korea, using it for the bulk of its product development.

In fact, GM didn't (at first) commit to the joint venture in quite the way that the Chinese had initially hoped, doing its best to keep as much outside the joint venture as possible. Instead of jointly developing a car (and then being forced to share profits with SAIC), GM tried first to sell the joint venture parts for assembly from its plants in Europe and North America. Nor

did it want to cede intellectual property rights directly to its partner, keeping the bulk of its R&D effort in South Korea.

Back to the present day, and the drawback for GM in selling the Volt in China purely as an import is that it won't get the sales subsidy offered by the government on 'Made in China' vehicles (a problem, given that the Volt retails for \$41,000 in the US).

Instead, GM seems prepared to give up on China revenues if it means keeping full control of the technology for sales in other markets. Nissan is doing something similar: jointly developing an electric car with its Chinese partner, Dongfeng Motor, but opting not to build its new electric Nissan Leaf in China.

Perhaps GM executives will change their minds in the years ahead. And for the moment they will prefer to highlight other efforts: that the company will launch more than 60 new or upgraded (and locally made) models by 2015 as part of a plan to double sales to more than 5 million by then. ■

# Oil money

*Changes to the resource tax look set to fill the coffers of local governments*

**K**aramay is one of Xinjiang's oil towns. Legend has it that in the 1940s, an aged Uighur man called Salimuhu found a mysterious black oil that could generate both heat and light, which he started distributing on the back of a donkey.

A decade later, the government established an oil well in Karamay and the town today is an important outpost of the PetroChina empire. But the oil company's local dominance has been challenged by the growing influence of the local tax office, as the government expands an amended resource tax that should boost the treasuries of energy-rich provinces.

Taxes on oil and gas have hitherto been collected on the basis of volume. The amended tax includes value as a factor for calculation, allowing the state to benefit from the rising price of energy resources.

The new tax mechanism was first launched as a pilot scheme in Xinjiang last summer as a 5% levy on oil and gas, before being rolled out to other western provinces.

Evidently, the bureaucrats in Beijing have figured it's a good idea.

Last week, the State Council approved the revisions of the tax, although a precise timetable for implementation has not been announced. Many expect the tax will now be rolled out nationwide, potentially at a higher rate. A senior tax official said earlier this year that it could be as high as 10%.

An important feature is that the revenues will go to the local government. This should prove to be a major boon for provinces abundant in



**New resource tax is not good news for Chinese oil majors**

resources. Xinjiang is a good example. In the first six months of last year, when the tax was only levied on volume, the autonomous region raised Rmb371 million. But when value was included in the calculation for the second half of the year, revenue increased sevenfold to Rmb2 billion. In 2011, the tax take is expected to rise Rmb3.2 billion (\$500 million) – a decent sum for a developing province in the far west of the country.

Expanding the tax across the country fits into one of Beijing's grand plans – broadening the tax base for local governments. That would allow for a reduced dependence on selling land to raise revenue, a situation that looks more precarious given the uncertainty over the future of the housing market.

Earlier this month, we reported on the introduction of local government bonds (see WiC 122). One of the key concerns at the central government level is that provincial gov-

ernments will issue too much debt, without the revenue base to cover repayment. Measures like the amended resource tax will provide extra revenue streams, thus increasing creditworthiness.

But while raising money for the state, the tax will shrink profits for the resource companies. The China Petroleum and Chemical Industry Association predicts that the three largest oil companies – PetroChina, CNOOC, and Sinopec – will together have to pay an extra Rmb37 billion (assuming 2010 output and oil taxed at 5%). One Sinopec insider told CBN that the revised tax will scoop up almost one third of the company's profits in Xinjiang.

Resource companies will try to make good by raising prices for end consumers. Here there is a dilemma for policymakers. In expanding the tax base for local governments, they may end up pushing up the price at the pump, rekindling this year's economic bugbear, inflation. ■

# Southern comfort for Airbus

*In a world first, Chinese airline will use A380 on domestic routes*

**F**our years after the A380 first began to fly commercially, a Chinese carrier is about to take receipt of its first Airbus double-decker.

China Southern announced that it would buy the A380 back in 2005, with the original (and somewhat ambitious goal) of operating the aircraft in time for the Beijing Olympics three years ago.

Delays in delivery put paid to that schedule and maiden flights began later this month, with a series of “A380 experience flights” between Beijing and Guangzhou (the airline’s home hub), and Shanghai and Beijing.

This is a puzzling debut for some, given that the A380 was originally designed for long-haul travel between congested international hubs, and not for flights within borders.

Early operators Qantas and Emirates also put their aircraft straight to work on long-haul trips, with the operating economics looking strained by shorter flight times.

However, Korean Air has been deploying the A380 for regional operations, and Emirates has been using it on shorter trips too, including the three-hour hop between Dubai and Jeddah.

Another reason for the cautious introduction of the new aircraft is that China Southern will take possession of a single A380 from Airbus on October 15 (it has five on order). In the event of a technical glitch at an airport overseas, it could face problems sending a single replacement large enough to retrieve all the passengers.

The airline will also want to ease



**Soon taking off from Guangzhou**

carefully into A380 operations, with the shorter sectors allowing more pilots and cabin crew to gain flight experience.

Plus it will take time for the home hub in Guangzhou to adapt, with taxiways and runways now extended, and handling facilities reshaped to absorb the dual-height bridge needed to board passengers.

As of last month, the A380 was cleared to operate to over 130 airports worldwide.

But another of the challenges for China Southern being discussed in the domestic media is more of a commercial one: filling the aircraft with passengers.

As Digital Business Times points out, China Southern has the largest fleet of the Chinese carriers. But it is heavily reliant on its domestic business, deriving just a fifth of its revenues from international flights (compared to 50% for leader Air China). Its international passenger volume was up to 3.9 million in the first eight months of this year. But that trailed dramatically the 48.5 million passengers it carried domestically in the same period.

The A380 strategy is a huge risk, agrees 21CN Business Herald, as

China Southern does much better domestically than on international routes. But the plan is now to double capacity on international routes, with the new A380s spearheading the expansion. “We need to increase our efforts on routes to Europe and the US,” admitted a source from the airline. “The A380 will give us the chance to ‘stand up’.”

Will that work? As China Business points out, the seat configuration chosen for the first A380 in the fleet is not the luxury layout preferred by some of the aircraft’s other operators, offering 8 seats in first class, 70 in business and 428 in economy. Airlines traditionally earn more carrying premium passengers than those in cheaper seats, leading the newspaper to query whether China Southern will make sufficient margin to cover its operating costs.

But that viewpoint looks a little out of date. Although the early A380s entered service configured more with a focus on the premium traveller, more recent arrivals have often been kitted out with an increased quota of economy class seats.

China Southern’s layout looks much more the norm than it would have done four years ago, and sounds like being a whole lot less crowded than trips with Air Austral, a carrier based in the French island of Reunion, which is planning an all-economy layout of “around 840” seats. Once final approvals are received from regulators, Paris and New York look like being the first international destinations to welcome A380 arrivals from the airline’s Guangzhou hub. ■

# Maintaining privacy

*Why China Life covets privately-held Minsheng Bank*



**Keep it private:** regarded as the bank of entrepreneurs, Minsheng is a target of state-owned insurer China Life

Originally a seller of vitamin supplements, Shi Yuzhu is nowadays best known as the “Chief Gaming Officer” at Giant Interactive Group, an online gaming company that has made him one of China’s richest men.

Shi is now making a name for himself as a defender of private enterprise, as he is conducting a high-profile campaign to keep the state from taking control of Minsheng Bank, China’s only large privately-owned banking institution.

His enemy is insurance company China Life, a shareholder in Minsheng that has announced that it plans to increase its stake in the bank.

China Life is Minsheng’s second largest shareholder, according to the bank’s interim report, with a 4.31% stake. Shi owns 2.77% via his com-

pany Shanghai Giant Lifetech, putting him fifth on the list.

As befits a new media tycoon, Shi has waged war via his *weibo* (China’s Twitter equivalent). Minutes after China Life’s vice president Liu Jiade said during an earnings call that the insurer was interested in increasing its Minsheng holding, Shi posted: “China Life, please do not plan to hold a controlling stake in Minsheng Bank. China’s only major private bank... should not retrogress into a state-owned bank.”

When Liu was asked whether China Life intended to take a controlling stake in Minsheng, he replied that it depended on how the bank would consider the move.

Shi responded with the following: “Save some room for the private economy. Minsheng Bank without private mechanisms will lose

core competencies and bid farewell to rapid growth.”

Shi’s diatribe reveals a growing backlash against increasing state control of the economy (a trend *WiC* first pointed to in issue 30 – known as *guojinmintui* ‘the state advances as the private sector retreats’). Private sector tycoons like Shi now appear to be fighting back. It is this wider context that makes the Minsheng situation all the more newsworthy.

In late 2010, Minsheng’s core capital adequacy ratio and capital adequacy were both lower than the banking regulator’s minimum requirements. Refinancing was an immediate concern, so the bank held meetings with major shareholders to see if they would participate in a private placement. During the meeting with China Life, the insurer’s representative made his move: “I

will take whatever [additional shares] you don't want," he told Minsheng executives, reports Nation and Economy Weekly.

In many ways, it makes sense for China Life to seek closer ties with Minsheng, not least in providing additional sales channels for bancassurance products. In this regard the insurer can learn from its experience investing in Guangfa Bank (formerly known as Guangdong Development Bank) which has since become a major seller of China Life products.

But China Life could have a broader plan. Its biggest rival in the insurance business is Ping An, which through control of Shenzhen Development Bank is able to operate across the financial spectrum in insurance, banking and investment.

Taking control of Minsheng would allow China Life to compete as a financial conglomerate.

There is plenty of debate over whether it is even feasible for China Life to take control of the bank. Minsheng's president, Hong Qi, also denies that this is the insurer's intention. Even if it was, the diversified shareholding structure would make it difficult for China Life to acquire a dominant position: "Even with a larger stake, one will not necessarily win a voice on the board of directors or the general assembly of shareholders," Hong told Capital Week.

One analyst told the newspaper that China Life would have to acquire a 20% stake, which would be difficult since most of the major shareholders would be unwilling to sell. This means that the insurer would have to try and complete the deal via the public market. Even if it were possible to find enough available stock, the buying effort would push up the share price, making the deal extremely expensive.

So unless several of the large shareholders succumb to a juicy of-

fer for their stock, it looks like Minsheng's investors need not worry for now about a China Life takeover.

## Wenzhou woes

*More debtors do runners*

**B**ad debts are putting pressure on China's shadow banking industry. One of Wenzhou's more prominent businessmen, Hu Fulin was unofficially known as the "King of Glasses". The chairman of Zhejiang Xintai Group, a leading eyewear manufacturer, had official titles as well, including an award that congratulated him as a "Superior Builder of Socialism".

Despite the accolade, he will probably be remembered more as someone who absconded when his debts overwhelmed him.

Early last week, Hu's company was busy preparing to sign a contract with a large Hong Kong partner. Then Hu called into the office from an unknown location. Pay the staff their wages, he instructed. Plus don't expect to see me again – I will never be coming back to Wenzhou.

When the news of Hu's disappearance leaked out, the company was soon besieged by creditors demanding their debts repaid.

The Economic Observer reports that Hu owed about Rmb2 billion (\$312 million) worth of debt. But people close to the situation told the newspaper that Hu had borrowed even more than that from (reckless) individuals, and it was probably enough to force several private lenders out of business.

Wenzhou is at the forefront of a shadow banking industry that lent Rmb287.5 billion in the first half of the year, more than double the amount in the same period last year. These are the estimates from government sources: the actual scale of the lending is likely to be much, much larger.

How can a more accurate assessment be reached? In the first half of September, deposits at the Big Four banks decreased by Rmb420 billion, an unusual level of withdrawals, reports China Securities Journal. Some analysts now speculate that savers – fed up with low returns on bank deposits – are switching their savings to private financing companies instead. The decrease in deposits were



The big four banks have seen big withdrawals in recent weeks

greatest in cities like Wenzhou, Dongguan and Fuzhou – or manufacturing centres where private lenders thrive.

Private lenders are offering attractive returns: the monthly interest rate from a private financing company is between 2% and 3%, around 10 times more than the monthly return on one-year deposits at the bank.

The problem is that the ranks of disappearing debtors have been growing (a subject these pages have regularly chronicled, see WiC114 and 120). While an established (and legal) bank might be large enough to absorb the losses that come from

bad debt, the private lenders are much smaller, and hence more vulnerable to collapse if one of their large borrowers heads for the hills.

The web-like character of this underground credit system also means interconnected chains of debt: one party lends to another at a monthly interest rate of 3%, who in turn lends the proceeds to someone else for 4%, and so on. When one party fails to pay up, the chain collapses.

Demand for financing is such that some bosses are shifting their attention away from their core business into private lending, with the original business becoming a front for a financing operation.

The 21CN Business Herald carries a story about a Mr Wu, a Wenzhou manufacturer who shrank his manufacturing business to free up Rmb3 million of capital to lend to a friend engaged in private lending at what was supposed to be a high interest rate. But the friend is now paying lower returns than promised and refuses to pay back the money owed. Wu now fears that he will be caught in a collapsing chain of capital. People he once did business with are starting to disappear.

“People with problems seem to be getting closer to me. I am at a complete loss on what to do,” Wu laments. ■



## Who's Hu: Lei Jun

Profiles of China's business leaders

### Getting started

Born in Xiantao, Hubei province, Lei Jun had an unusual talent. As a student of the computer science department in Wuhan University from 1987 to 1991 he was obsessed by computers, then a total novelty in China. After finishing his academic credits, he started teaching in the computer lab, and by the third year at university he was making money, earning his first Rmb1 million selling encryption software.

After Lei had graduated he was recruited by Qiu Bojun, the founder of Kingsoft, which dominated the domestic office software market before Windows entered China in 1996. Lei jumped from programmer to CEO, transforming Kingsoft from a software producer into a comprehensive IT firm, involved in anti-virus and translating software, and online games.

In 2007, shortly after Kingsoft launched an IPO in Hong Kong, Lei resigned. “It feels like reaching the finish line after a long time running,” he told China Entrepreneur.

### Investor rather than creator

After years of competing with Microsoft, Lei thought he had missed the opportunity to build a company himself in the internet boom that had seen Tencent, Baidu and Alibaba grow from start-ups to major players.

But as an investor, Lei proved successful. The first success came with the sale in 2004 of Joyo.com, an online book retailer in which Kingsoft had invested in 1999, to Amazon (see WiC63). This was rumoured to have brought him a personal fortune of Rmb100

million. Lei also invested personally in Lakala, a third party payment provider (see WiC58), UCweb, an online game site, and Vancl, an online clothes retailer (see WiC109). All have become promising companies. Last year the market value of UCweb was estimated at more than \$300 million, while Vancl is said to be worth at least \$1 billion.

Other companies keen on raising capital now approach him.

Lei says he pay less attention to the business plans piling up on his desk and invests more on the basis of the personalities that he meets. Hence he phoned his friend Tao Liran, the founder of Lakala, when he heard he was starting his own business. He also prefers to focus on two fields: wireless and e-commerce.

### Jobs on

In 2010 Lei founded the mobile phone company Xiaomi Corp. After spending a year working in R&D on the Xiaomi software and operating system, Lei announced that the first phones would be released for sale in October. The new product has earned a lot of publicity as potentially the world's fastest smartphone, equipped with a 1.5-gigahertz (GHz) dual-core but priced at just Rmb1,999. Rather ambitiously, Xiaomi is being touted as a challenger to the iPhone 5.

### Need to know

Lei says he has dreamed of becoming a Chinese Steve Jobs since he was 18. In August this year he played the part too, dressing in black shirt and jeans to present the new Xiaomi product in familiar Jobs-style.



Lei: Chinese Steve Jobs

# Real estate enigma

*Fathoming China's property market is tough*

If the stockmarket is anything to go by, China's property prices are heading south. Last week, real estate stocks took a tumble, with several Hong Kong-listed Chinese developers suffering double-digit declines.

The trigger for the drop was a report that the China Banking Regulatory Commission had ordered trust companies to assess their exposure from lending to Greentown, the largest property developer in Zhejiang province. Greentown's stock price dropped more than 16% last Thursday following reports of the notice, which led to a broader decline in Hong Kong among mainland Chinese property companies.

Greentown's chief financial officer Simon Fung told the Wall Street Journal that the company's loans from trust companies comply with banking regulations. "It's not really our position to clarify this as it is normal for the banking regulator to conduct trust loan checks from time to time," says Fung.

Greentown total debt hit Rmb34.6 billion (\$5.4 billion) by the end of June – almost 40% of it maturing in 12 months – and Rmb5 billion of its liabilities related to trusts. Greentown's net gearing ratio reached 163% at the end of June too, rendering it the most highly-g geared of the Chinese property developers listed in Hong Kong. The debt was taken on to fund the firm's aggressive expansion when the property market was booming, says company chief executive Shou Bainian.

With the housing market now slowing down, analysts now ques-

tion the viability of some of the more indebted developers.

"Industry consolidation is likely to accelerate, weeding out the weaker players. The hard times aren't over yet," concludes S&P's credit analyst Frank Lu.

Although stock market sentiment towards China's property developers has plummeted, as yet there does not seem to be a comparable drop in the prices of many of the flats that they sell. While price appreciation has slowed there are no outright declines. Last month, new-home prices rose in all 70 cities monitored, says Bloomberg.

But there are reports that prices in some cities are under pressure.

In Shanghai, transaction volumes have slumped more than 50% from a year ago, says China Index Academy. As a result, developers have cut prices by up to 10% on nearly 150 residential projects in the city, says Soufun, the country's top property website. Similarly, even though home prices in Beijing have held up – rising 1.9% in August from a year ago – the rate of appreciation has slowed to a crawl, compared to the boom times.

Still, industry insiders say that just because housing prices in first-tier cities are coming down doesn't mean that the rest of the country will follow. The view is that underlying demand for housing in China's third and fourth-tier cities is still robust. Nanchang, a city about 800 kilometres southwest of Shanghai, saw the biggest increase in August, climbing 9.1% from a year ago.



**Don't look now: are prices falling?**

"China is not just Beijing, Shanghai and a handful of major international cities. As a result, it is a mistake to look at the property markets in those major population centres and draw general conclusions about the country as a whole," Jack Perkowski, managing partner of JFP Holdings, wrote in Forbes.

Investors appear to be taking heed. According to CBRE Research China, overseas developers have begun targeting China's smaller cities.

For example, Mitsubishi announced just last week it will develop a large-scale residential complex in Shenyang – the Japanese firm's first condominium development in China. "It is not surprising for foreign institutional investors to tap China's lower-tier cities, because the demand there remains strong as a result of a lower urbanisation rate, and the local governments are more willing to cooperate with them," says Carlby Xie, head of research and consulting for North China at Colliers International.

Can any general conclusions be drawn? With so much contradictory data, so much regional diversity and so little agreement on some of the key questions in the market (how many apartments currently stand empty, for instance) China's property future is devilishly difficult to predict. ■

# Accidents of birth

*You don't know China, till you grasp its provincial stereotypes*

Poor Henan. The reputation of this central province, a cradle of China's "Yellow River" civilisation, is probably the worst of the country's 31 provinces, autonomous regions and municipalities.

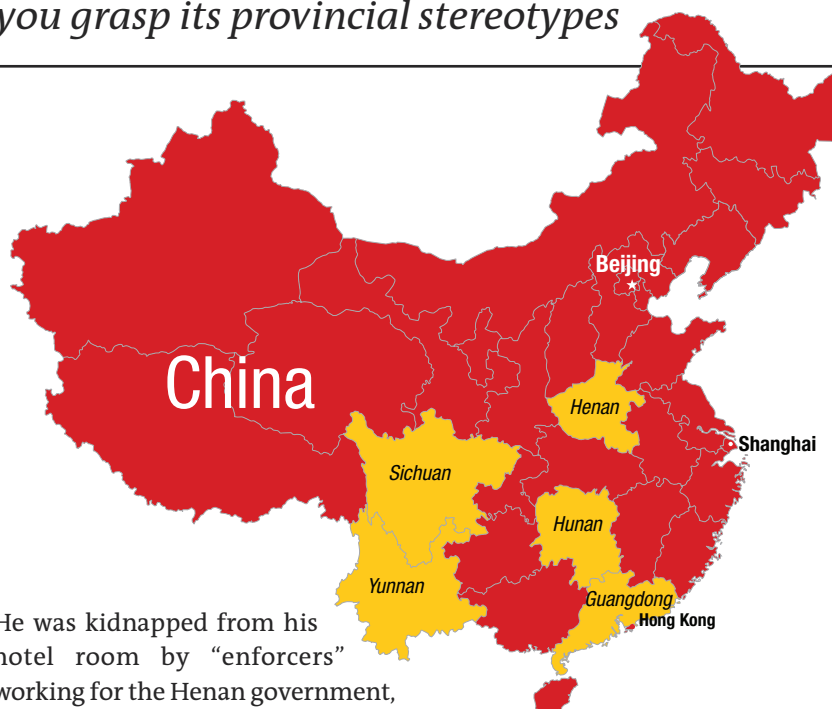
And last week it took another hit – or three, to be exact.

The hat trick of woe for Henan began when Li Xiang, 30, a television reporter working on the 'gutter oil' scandal (see WiC 123), was murdered in Luoyang. Li's laptop was stolen in the September 19 attack, sparking speculation that business interests were trying to suppress the story. Suspicions still linger; stabbing a person 13 times for a laptop isn't a common occurrence in China.

Li's murder led to the uncovering of an even more gruesome crime. Ji Xuguang, a journalist for the bold, Guangzhou-based South Weekend newspaper who was investigating Li's death, discovered that Li Hao, a 34 year-old civil servant and Communist Party member, had been arrested on September 6 for keeping six women as "sex slaves" in a basement he dug himself underneath a rented space in the city.

Li is suspected of murdering two of the women, in what looks uncannily like a Chinese version of Hollywood movie *Kiss the Girls* (in this film a bad cop abducts young women and keep them in an underground dungeon).

And finally, last week, a young Henan tourist in Beijing, Zhao Zhipai, was mistaken for a petitioner (for more on this topic, see WiC62).



He was kidnapped from his hotel room by "enforcers" working for the Henan government, driven back to Henan, beaten unconscious on the way and dumped on a Luoyang street, where a passer-by photographed him.

Local officials regularly "repatriate" petitioners in order to shield their reputation from the central government, with hundreds of thousands of local justice-seekers travelling every year to Beijing to try and win redress for local wrongs.

Henan police have since offered him a formal apology.

Among Chinese, Henan has an unsavoury character, and is known for its violence and criminality. People from Henan are popularly believed to be untrustworthy, all-around "bad eggs", although most people will quickly agree that there are perfectly nice Henanese, too – like Zhao Zhipai, the hapless tourist.

China as a country has powerful beliefs about regional character, both positive and negative.

In her book, *How To Get On With People From Every Corner Of The Country*, the author Liu Dengge says

regional variations in character, culture, diet and temperament will always be strong in such a large country. Topography is a factor too: much of China is mountainous, making many places hard to access – this produces strong local identities, people believe.

"In order to get on with people from different places, to communicate, work together, build harmonious relationships, you have to understand their habits, their psychological differences, their emotional differences, their culture, and how these produce special characteristics," Liu writes.

"One square of earth and water produces one type of person, and different geographical areas produce different kinds of people. There's the 'northeastern tiger', the 'northwestern wolf', the 'sheep-like southerners'; those are the kinds of differences there are," she continues.

"Different characters lead to different destinies, so we should be

clear about how locality and physical environment can influence personality.”

Liu’s book chimes with received wisdom. Casual conversations with many Chinese will elicit some of the following:

Any place where red chillies are a popular part of the diet are classified unsurprisingly, as hot-tempered. Hunan province is one, and has a reputation for rebelliousness – borne out perhaps by the most famous son of Hunan, Mao Zedong.

But **Hunan** is also considered clannish and corrupt, with hundreds of regional dialects that persist to this day, the product of mountainous terrain and isolated villages.

How that terrain might give rise to independence of thought, bravado and, sometimes, outright peculiarity, is explored by Han Shaogong in his book, *A Dictionary of Maqiao*, which looks at the “fantastical local roots of Chinese culture”.

Fu Shi, the author of the morally ambiguous manifesto on how to build *guanxi* and its close companion, corruption, titled *Chinese Guanxi* (see WiC120), is also Hunanese. His book has been selling strongly in Changsha, the provincial capital; perhaps suggesting, at the least, a deep interest in the subject.

**Beijing** natives, whether of old Manchu blood or more down-to-earth locals, are considered a more leisurely bunch, who love to chat about anything at all. Humour is highly prized in this subculture, as reflected in the well-known *xiangsheng*, or “cross-talk”, a kind of verbal one-upmanship where two people joke and try to best each other, on stage.

Beijingers are excellent at verbal games, tongue-twisters and puns. They are argumentative, but logical, and will debate in a friendly, reasonable way. They are not considered tricky in business – in fact,



**Chongqing: produces (reputedly) China’s most beautiful women**

they’re not even especially interested in business – but they are thought to be very loyal and would do anything for a friend.

The fact that their city today is so frantic, stuffed with furiously honking cars and people competing for jobs and apartments, is entirely due to its status as the capital (meaning it’s filled with politicians and power and that attracts new money from around the country). A born and bred Beijinger, of whatever social class, will blame the city’s relatively bad-tempered atmosphere on the influx of wealthy *waidi ren*, or “people from outside parts”.

By contrast, many people believe Shanghainese are commercially-minded, quick and nimble but superficial. This stems from Shanghai’s status as a highly westernised port city in the last century. Sophistication is part of that picture, and coffee is often a symbol of that. Beijing “cross-talk” star Guo Degang has a riff going with his **Shanghai** equivalent, Zhou Libo, in which both profess a mutual (if humorous) dislike. The Shanghainese sophisticate Zhou represents “coffee” culture, while Guo, the plainer northerner, is “garlic”. It’s known in China as “The Coffee-Garlic Debate”.

Shanghai women are reputedly tougher than their men too, something a true Beijinger dwells on with bemusement.

Heading north from Beijing, people from “**Dongbei**”, the three provinces of northeastern China, Liaoning, Jilin and Heilongjiang, are heavy drinkers, able to down high-proof alcohol by the glass and still make sense (or so they think.) Their men, straightforward, tall, strong and honest, make excellent bodyguards, and have a strong sense of brotherhood, qualities which stem from the region’s association with the Manchu, who took over China as the Qing dynasty in 1644.

Over in northwestern **Shanxi** and **Shaanxi** provinces, old, “core” areas of China, the people are Yellow Earth folk, named after the ancient, fine loess that marks their landscapes. They are held to be inward-looking and conservative, reluctant to change their ways. Some of China’s biggest banking families, prior to the 1949 revolution, were from Shanxi, as the ancient banking town of Pingyao attests.

Certainly, stolid, risk-averse behaviour used to be considered an advantage in a banker.

Skip down to **Guangdong**, in the

south. Here, people are viewed as outward-looking folk, seafarers, nimble and entrepreneurial, good at starting ventures, able to prosper anywhere in the world.

“All change in China comes from the south” is now a truism of political analysis of the country, and it seems borne out by the past century of history: the republican, anti-Qing rebellion rose up in Guangdong, led by Cantonese Sun Yat-sen; the Kuomintang under Chiang Kai-shek had their early power base in Guangzhou, the provincial capital; the Communists organised in bases in Jiangxi, south of the Yangtze river (and therefore belonging to the south); when Marshall Ye Jianying decided in 1976 that the Cultural Revolution had to stop, it was a Cantonese who put the turbulent north in order; and the Special Economic Zone of Shenzhen, a pilot for the transformation of China’s economy, opened in Guangdong province next to Hong Kong in 1980. Zhuhai, Shantou and Xiamen, also SEZs, are all on the southern coast.

People from **Fujian**, in the coastal southeast where Xiamen is located, are widely believed to be incredibly shrewd. When it rains, it is said, a Fujianese takes two umbrellas out onto the street – one for himself and one to sell.

Looking west, the Sichuanese, fired up by the hot peppers they love to eat, are said to be friendly and extrovert, bold and frank. They are also known for a willingness to flout rules, they can be strongly independent, and able to fight under conditions of great hardship.

During the republican era, at least five warlords held sway in **Sichuan**. Fighting was endemic, producing a generation of local troops who would fight fiercely against the Japanese during the Second World War. A statue to the “Sichuan Clique” stands in the People’s Park in Chengdu today.

Overall, though, people from Chengdu are thought to be more Daoist (and softer) than their **Chongqing** brethren, who are supposed to be less mellow, and sharper (technically, Chongqing is no longer a part of Sichuan). Chongqing women are also reputed to be among the most beautiful in China, slim from walking up and down the slopes of the hilly city on the banks of the Yangtze, their hair long and glossy from the humid climate, and

north, where locals pun that they are *zui hei de hei*, or “the ‘blackest’ of the black”, meaning the most corrupt – a pun on the first syllable of their province’s name, which translates as Black Dragon River.

Which brings us back to Henanese, who are often considered, rather simply, as dishonest.

And unlucky too: some people believe that one reason so much bad news emanates from **Henan** is that it has been one of the most popu-



**Poor reputation: Henan is one of China’s most populous provinces**

their skin radiant from all the Vitamin C (in those chillies).

Some of the wildest stories emerge from **Yunnan** province in the southwest, over towards the Burmese border. Yunnan, too, is very hilly and has a multitude of different ethnicities that contribute to its colour. Parts of it are still very poor but it has deep natural resources such as timber and water. That creates wealth, often for the local government, as well as conflict and corruption.

A ranking of China’s most corrupt regions offers up a strong and highly competitive field of candidates; not just Yunnan or Hunan (readers of Sina Weibo are often struck by how many corruption cases emerge from these provinces), but also **Heilongjiang** in the far

lous provinces for years, meaning there were more people to do bad things. Today Guangdong has more people (104 million, in fact) but about 37 million are migrants whose permanent homes are elsewhere, meaning Henan still has a higher indigenous population. Its own migrants face discrimination in finding jobs: in Leslie Chang’s excellent *Factory Girls* (see WiC6), she recounts that employers in the southern factory city of Dongguan have signs specifically refusing to hire anyone from Henan.

That’s why, when a person says he’s from Henan, it’s often accompanied by a slightly defensive expression. Obviously, hailing from “the cradle of Chinese Yellow River civilisation” isn’t always a good thing... ■

# “There’s a shark in my soup”

*Chinese sports icon tries to persuade compatriots to ditch shark fin broths*

**H**is basketball team may call the Shanghai Sharks, but Yao Ming is not a fan of shark’s fin soup.

Last week, the recently retired basketball star teamed up with British magnate Sir Richard Branson, the founder of the airline Virgin Atlantic, to launch a campaign in Shanghai pressing Chinese diners to stop eating shark’s fin.

“When demand happens, buying happens and the killing happens,” said Yao, who stopped eating shark’s fin in 2006.

But even with his star power, Yao is going to have a hard time changing the Chinese taste for shark’s fin. While most people outside of Asia find shark’s fin popularity baffling (celebrity chef Gordon Ramsay said it was “tasteless”) the delicacy is seen as displaying wealth and prestige in China and across the Chinese diaspora overseas. Shark fin’s soup, which can cost up to \$80 a bowl, is a must-have at plenty of wedding banquets and corporate dinners.

About 95% of shark’s fin is consumed in China, where rising affluence has spurred demand, according to WildAid, a conservation group that sponsored the event in Shanghai last week.

To cater to demand, more than 70 million sharks are slaughtered every year, a move that now endangers some species, says Xinmin Evening News.

“Few people know the importance of sharks in maintaining the ecological balance,” says Yao. “Nor do they realise the cruelty of the finning process.”

After their fins are sliced off,



**Virgin approach: Branson and Yao**

sharks are usually thrown back into the ocean where they are left to die. That’s because while a pound of shark’s fin can go for up to \$700, the remaining shark meat isn’t particularly valuable, and it takes up freezer space on fishing boats.

Demand is devastating shark populations, which cannot withstand intensive fishing in the same way as more fecund marine species. Sharks have few offspring and often do not reproduce until they are older than 10 years old. Worse, they give birth to just a handful of young (big tuna, on the other hand, release millions of eggs when they spawn).

The presence of the once-common hammerhead in large parts of the western Atlantic, for example, has decreased by up to 89% over the last 25 years, says the New York Times.

Across the Pacific, California passed a bill this month that effectively prohibits the sale, trade and possession of shark’s fin in the state. Similar laws are already in place in

Hawaii, Washington and Oregon.

Awareness is also rising among the younger generation of Chinese diners. Many are now choosing to opt out of shark fin servings at banquets, and advocates say sales have been reduced by about one-third in Hong Kong, Singapore and Taiwan in recent years. Activists hope that these richer, more mature Chinese societies offer hope that the mainland will follow their culinary lead.

## Fowl play?

*China buyer pays \$210,000 for a racing pigeon*

**P**igeons have a long association with wealth creation. Think back to Nathan Rothschild. In an era before Bloomberg terminals, the London banker used the birds to get advance news of the Battle of Waterloo. Having discovered that Wellington’s army had defeated the French, Rothschild initially spread the word that the British had lost. Investors began to sell in reaction to the news, allowing the financier to buy up bonds on the cheap.

Once he’d built his position, Rothschild then let it be known that Napoleon had been vanquished. The estimate is that the profit on this trade saw the Rothschild’s wealth multiply twentyfold, making them one of Europe’s richest families.

No surprise, then, that pigeons have started to get the attention of China’s new rich. In fact, a Chinese buyer set a new record this year,

paying €156,000 (\$210,389) for a fowl named Blue Prince.

According to *New Weekly*, Blue Prince was just one of the birds sold to Chinese buyers in a world record auction (raising €1.37 million from 218 birds under the hammer).

Belgium is a centre for the breeding of racing pigeons, and still possesses the birds with the most prized ancestry – i.e. those most capable of flying home fastest.

Pigeon racing has been popular in northern Europe for more than a century, but in recent years it has taken off too in China. And as with all things in China, don't expect the participants to indulge in half measures. In fact, one pigeon 'derby' race in Wuhan has an estimated prize money of €5 million, says PIPA, a Belgian-based organiser of bird auctions.

Such is China's importance as a buyer that in June, PIPA's president, Thomas Van Cauwenberghé spent 20 days visiting seven Chinese cities. He was accompanied by his chief operating officer – appropriately enough Chinese – Yi Minna. She told the *Washington Post* that Chinese buyers have been collecting birds just as they have been keen to accumulate fine wine and high-performance cars. But she says the birds have a distinct advantage: "One bottle of wine remains one bottle. You have a nice pigeon and it will have more children and grandchildren."

Blue Prince, the bird that broke the sales records, was shipped to China to breed, not to race.

Another big factor behind pigeon-fancying is that they offer a vehicle for betting. The Chinese propensity for gambling has been covered by *WIC* before (see the Focus Issue 'Punting on Macau' in particular), and there are now thought to be 300,000 pigeon association members racing about 30 million racing pigeons.

The real action is in so-called Loft Races in which young birds must



### Bye bye Belgium, hello Beijing

find their way back to their home lofts across distances of hundreds of kilometres. PIPA's Yi mentions a Shanghai race in which the winning pigeon earned its backers €500,000, and *New Weekly* equates the loft owners to bankers in a casino, taking bets from enthusiasts on the thousand or so participating birds.

Sadly, whatever money touches in China it is liable to corrupt. At an annual meeting of the Beijing Pigeon Association, one member made an impassioned speech claiming "loft cheating" has become common.

With 400 lofts, and annual prize monies worth an aggregate Rmb500 million, speculators were taking over the sport, he claimed. Inside information was also being sold on which birds were (in contravention of the rules) better fed or trained (especially in Shandong, apparently, where rigging races is most common).

Some unscrupulous loft owners would also take cash ahead of races and then flee without paying up.

In spite of all the expensive birds being bought in Belgium, the verdict of Shen Qi, the Secretary General of the Liaoning Pigeon Association is that 2011 has proved a "crossroads" for pigeon racing in China and a "troublesome year".

As one fancier added on the internet: "Today's pigeon sport has no justice, no good or bad, no right or wrong, no honour!"

## Not authentic

### *Auction house caught out*

Pablo Picasso once proclaimed, "We all know that art is not truth."

And last week, a group of former art students suggested as much once again, after reporting that an oil painting sold at auction in Beijing last year as an original Xu Beihong piece was painted by one of them, and not by the late artist.

The painting in question, which depicts a naked woman thought to be Xu Beihong's wife, went under the hammer last spring at Beijing Jiuge Auctions and attracted a winning bid of Rmb72.8 million (\$11.4 million). Xu (1895-1953) was famed for his Chinese ink paintings of horses.

But according to an open letter signed by 10 former students from the Central Academy of Fine Arts' oil painting department, the work was actually produced during one of their class exercises – 30 years after the master's death. Wang Yanqing, one of the signatories, told the *South China Morning Post* that it was impossible that Xu could have painted something in a style that was so similar to their class exercise.

"Any oil painting graduate from the Central Academy of Fine Arts is capable of identifying the painting as a class exercise," says Wang. "Xu hasn't painted anything similar. We issued the open letter because there were so many compliments online saying how rare the painting is and how high its artistic value is. It was having a social impact and these comments may trick future buyers."

"It can't even be called a fake piece, as it is a totally unrelated painting," Chen Danqing, a famous artist and critic, dismissively said on China National Radio.

The incident highlights the coun-

terfeiting problem facing China's auction industry. Industry insiders say as much as 90% of the value of art currently for sale in China risks being a bogus piece.

"You find copying everywhere that people collect art, but, when it comes to art fraud, China is probably the world capital," says one Beijing art consultant.

A few weeks ago there was more news about forgery, although this time the headlines focused less on the art world than the banking system. Xie Genrong, who used to be one of China's wealthiest men, was discovered to have secured a Rmb7 billion bank loan by offering two antique jade suits as collateral.

Only they weren't that rare: they were fakes. Xie hired Niu Fuzhong, a relic expert, to reproduce the jade clothing in 2002. "Xie gave me the pieces of jade and I made them into two whole jade suits," Niu told Beijing News. "Neither of them was

valuable." Not according to the five appraisers used for the bank loan, who set the price of one suit at Rmb2.4 billion. Using their valuations, Xie hoodwinked two bankers at China Construction Bank.

After the news came to light, the blame game began. One of the five appraisers was Shi Shuqing, a renowned art historian who died in 2007, so the four others pointed the finger at him. Yang Boda, one of the other appraisers, said Shi didn't even touch the jade clothes to determine their authenticity, appraising them only by walking around the glass-box exhibits. He told the Beijing Youth Daily Shi's multi-billion evaluation might have been a "casual guess". Was a conflict of interest responsible? Though antique appraisers deny it, industry insiders say it is an open secret that up to 5% of the appraisal price is usually on offer as a commission.

Others say auctioneers are to blame too. Chinese law absolves auctioneers of responsibility if they warn before an auction that they can't ensure the authenticity of the pieces on offer, says QQ.com.

"There are no unanimous legal procedures to follow in this industry for auction companies at all. They are just a commercial entity, similar to a shopping mall," well-known art collector Ma Weidu told China National Radio. "So don't expect that they can guarantee the authenticity of the products they put up for auction."

As for the owner of the forged jade suits, he got a life sentence for fraud in 2009. But Xie was jailed not for art forgery but for creating hundreds of false housing sale contracts and fabricating financial reports. China Construction Bank executives will likely think twice before trusting 'expert' valuations or lending against an 'antique' again... ■



## Brush Strokes | *Geming* (meaning 'revolution')

Revolution (*geming*) is one of the most important words in China's political lexicon.

*Gemings* weren't limited to the Communist one of 1949, of course.

In 1911, Sun Yat-sen's republicans rose up against the ruling Manchu dynasty, as the title of a film just out in China, *The Xinhai Revolution*, makes clear.

As Jonathan Fenby writes in this month's edition of *History Today*, the 1911 revolution established China's first republic, but it was a weak one, described by the general who helped destroy it as "a very weak baby".

But China was still unable to keep up with modernising Japan, and decades of infighting ensued at home, ending in a brutal Japanese invasion and another *geming*, in 1949 by the Communists. This one was more radical, writes Fenby, who calls it the "real revolution".

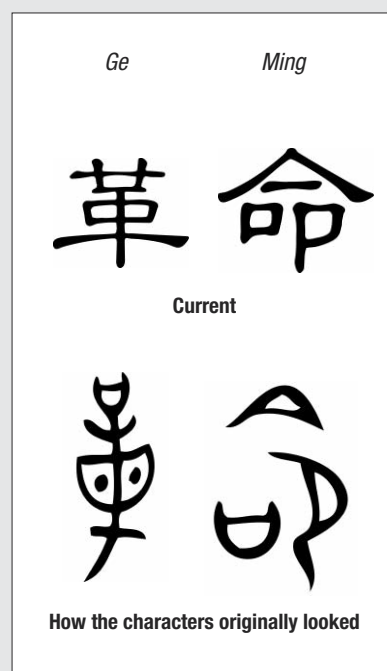
Measured against all that drama and violence, the word itself makes a humble impression. A compound character, like many Chinese words, it is made up of two words: "*ge*" and "*ming*".

"*Ge*" was a pictogram of a goat hide. That can still be seen in the two "horns" that stick out of the top of the character; the squarish head below; the body with two forelegs stretching left and right, and, lower down, the horizontal hind legs; below that, a small tail pointing out, as it does in a skinned hide.

The meaning was clear: from living goat to dead hide, the animal had profoundly changed. "*Ge*" meant change, or transformation.

The origins of "*ming*" go further back, to the oracle bone inscriptions of the Shang dynasty. On top is a roof, possibly an emperor's pavilion; below left, is a mouth, indicating speech; below right, is a man with his hand outstretched, finger pointing, as if issuing an order.

Its basic meaning was "order", or "command", or even "job" or "post". So "*geming*" meant: to change the ruling order from above.



# Netizens bark in disapproval

*After online uproar a centuries-old 'dog-eating' festival is scrapped*

Sometimes referred to as “fragrant meat” or “mutton of the earth”, dog has been eaten in China for thousands of years.

The philosopher Mencius, who lived during the fourth century BC, recommended dog meat for its medicinal properties. More recently, Chinese astronauts have eaten it in space (something you can't imagine Neil Armstrong ever doing).

But opposition to eating dog has grown as China has become richer and the number of people who can afford to keep a pet has increased. Last March a draft law banning their consumption was submitted to the country's parliament, the National People's Congress.

In the latest example of how dogs are transitioning from dinner dish to much loved companion, a dog-eating festival in the eastern province of Zhejiang was cancelled last week after thousands of Chinese expressed their fury online.

“Stop this massacre. Dogs are our most loyal friends,” one netizen demanded last Monday. Messages calling for the event to be banned were forwarded tens of thousand of times.

The three-day festival, which traces its roots back to a military victory six centuries ago, was due to be held near the city of Jinhua in the middle of October.

Activists said many as 10,000 dogs would be slaughtered.

Photos of local markets circulating online last week showed dozens of dogs crammed into tiny cages with their jaws wired shut.

“People actually enjoyed killing them in various ways at the festi-



**Walking the dogs, Beijing-style**

val,” one activist wrote her on micro-blog. “I’ve seen the dogs being stabbed, strangled and even beaten into comas and thrown into boiling water. Some dogs came to in the boiling water and they struggled, but the vendors kept pushing them, [till they drowned].”

Qianxi has held the festival since 1389 when a Ming dynasty general captured the town by killing all the dogs so that their barking wouldn't alert inhabitants to his advance.

Netizens celebrated after the local government announced that the event had been cancelled last Tuesday. Others pointed out that killing and eating dogs is not illegal in China.

Pet ownership – once banned by the ruling Communist party because it was deemed to be bourgeois – is now becoming more popular in wealthier cities. Though the government still imposes restrictions on the number and size of pets, there are thought to be some 2 million pet dogs in Beijing with the population growing at 10% a year.

Scruffy Pekinese – the dog favoured by China's imperial court – are still the most common but Dalmatians, Huskies and Labradors are also popular. Many are walked under cover of darkness because of their size (local regulations stipulate that dogs in Beijing should not be taller than 35 centimetres). ■

## Photo of the Week



Photo Source: Imagine China

Wang Kang, 25, wore this iron man suit to his office in Shanghai. A fan of the Hollywood movie, it took him three weeks to build and cost \$450

## Where is it?

Some of the places referred to in this issue



## In Numbers

**36**

The number of privately-held companies that made it to the list of Shanghai's 100 largest enterprises last year, the most since 2005, says the Shanghai Enterprise Association. These companies have an average annual revenue of Rmb8.7billion.

**\$156,740**

The amount a bottle of cognac fetched at a recent auction in Shanghai, exceeding the €25,000 record set in France in 2009, according to the Guinness Book of World Records. The record-setting bottle of cognac auctioned off in Shanghai was from Cognac Croizet.

**59%**

The percentage of respondents polled by Bloomberg that said China's GDP, which rose 9.5% last quarter, will go up by less than 5% annually by 2016.

**300**

The number of group-buying sites that went out of business in August. With more than 4,000 group-buying sites operating in the country, the closures suggest that competition is becoming intense.

**1080 metre/minute**

The speed of the world's fastest elevator, in the Shanghai Tower, which promises to be the tallest building in China when completed. The elevators are supplied by Japanese firm Mitsubishi Electric.



Go to  
[www.weekinchina.com/  
welcome/](http://www.weekinchina.com/welcome/)

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