

# Week in China

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## A new Mao doctrine



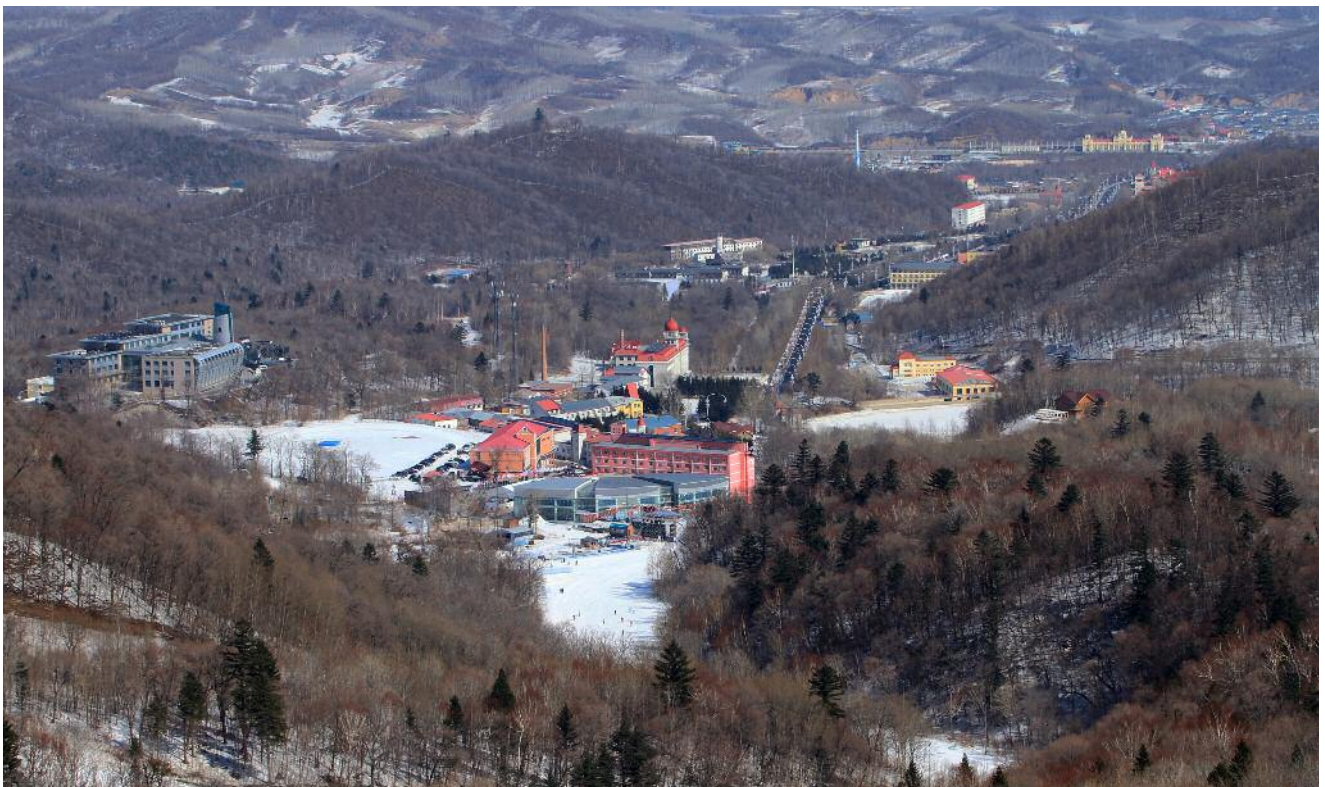
*Yelling in Yabuli: entrepreneur Mao Zhenhua provokes online storm and praise from fellow business tycoons as he criticises the perfidy of local bureaucrats*

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# Quotations from Mao

*Why the Yabuli ski resort has become the hottest topic among entrepreneurs*



**The Yabuli ski resort in Heilongjiang: where red tape collides with red capitalists**

Situated at 1,000 metres above the sea and frozen in heavy snow for more than 100 days a year, Yabuli was, till relatively recently, one of the least inhabited places in China's northeastern Heilongjiang province.

Its fortunes began to change when a winter sports centre was built at the remote spot in the 1990s but even that was turning into a white elephant until 2001, when a fortuitous decision permanently raised its profile. It was in that year that a group of private sector entrepreneurs picked the freezing little town as a venue for their annual Spring Lantern Festival gathering which takes place on the 15th day of

the Chinese Lunar New Year.

The idea was inspired by the World Economic Forum and it was hoped that Yabuli would become China's answer to Davos. The Yabuli China Entrepreneurs Forum has since become an important *guanxi*-building platform for Chinese tycoons. The news headlines generated by their get-together each year has made Yabuli a household name. Foreign investment has followed, with Club Med opening its first Chinese hotel there in 2010 (the chain's owner, Fosun's Guo Guangchang, is one of the directors of the Yabuli Forum), and this has turned Yabuli into China's foremost skiing resort.

The 18th Yabuli Forum will be held in early March but private sector entrepreneurs have already been having a field day speaking out on China's business environment. A sprouting debate, set off by an online tirade against government bureaucracy by an early investor in Yabuli, has virtually turned the winter resort into a symbol in the struggle by private business tycoons to fight state capitalism and the dead hand of bureaucracy.

## What has happened?

The firestorm was started by a video titled "The Huge Difficulties in Revitalising China's Northeast", posted



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on weibo on the first day of 2018.

It was filmed on New Year's Eve and featured Mao Zhenhua, a founding member of the Yabuli Forum, who visited the tourist hotspot and unleashed a fierce attack on its local government authority, namely the Yabuli Administrative Committee. His grouse? He claimed it had illegally appropriated land from a ski resort he has been developing.

"They have illegally grabbed 230,000 square metres of our land without a single word of apology," Mao protested in the video. "We have been here for 22 years. Then they come along. They are the government but they are also a company. They have used their government cover to seize our assets."

"We have often been threatened with various inspections. One day it's the police, the next day it's the food safety enforcement officers and then inspectors in charge of boiler safety," Mao added in the three-minute rant, which he encouraged onlookers to share online. "Every day, they've brought us troubles, but they haven't done a single thing to help us."

Mao is not exactly a big-name property developer but the 53 year-old is well known nationally for setting up China Chengxin Credit, one of the first domestic rating agencies (which is now 30%-owned by Moody's). He is also a professor at Renmin University, an elite college in northwest Beijing.

Yet it seems Mao's Yabuli connections have propelled his scathing comments into the year's first Chinese "internet event" (aka incidents that attract exceptionally high online attention). Step forward a host of business celebrities with massive online followings, such as SOHO China's Pan Shiyi. They shared Mao's video, which helped his remarks to quickly go viral, stoking an



**Last resort: Mao Zhenhua delivers his video protest in Yabuli**

avalanche of support from fellow private sector bosses.

#### **Why does Yabuli matter?**

Pan has urged Heilongjiang's provincial government to intervene and ensure "a level playing field" for private businesses in the rustbelt northeastern provinces, which are known in China as Dongbei.

Wu Yajun, chairwoman of Longfor Properties, also joined the debate and just stopped short of calling out the local authorities for breaching a contract and bringing in state-owned companies to compete with Mao's company. "He [Mao Zhenhua] turned around the resort from the verge of bankruptcy but once his business showed signs of promise, the local administration authorised other investors to build new hotels and leisure facilities inside his resort," the female tycoon wrote on her own WeChat account.

Both she and Pan are also directors of the Yabuli Forum which has transformed an annual business summit into something like, as the China Securities Journal put it, "the private club of Chinese tycoons".

Although a pure free market is not exactly what these private sector bosses have been looking for, the body does position itself as a platform to "promote the spirit of free-

dom and independence" among Chinese entrepreneurs. Just like the World Economic Forum, the Yabuli Forum now organises high-level conferences throughout the year. A recurring topic of discussion, tellingly, has been the challenge that private sector entrepreneurs face from the growing clout of state capitalism, aka *guojinmintui* (or "the state advances, private sector retreats", see WiC230).

Interestingly enough, even a principal objective of the Yabuli Forum – to turn Heilongjiang county into China's Davos – has been overshadowed by state rivalry. The Chinese government became an official partner of the World Economic Forum in 2007. The Summer Davos Forum has since been held alternately in the Chinese cities of Tianjin and Dalian every year.

#### **Is it only about Yabuli?**

Part of Mao Zhenhua's investment in Yabuli, in fact, was previously owned by Melco, the gaming operator controlled by Lawrence Ho, son of Macau casino magnate Stanley Ho.

Ho junior sold his Yabuli project to Mao in 2010 after a global credit crisis disrupted his ambition to turn Melco into the biggest tourist play in Dongbei. The Ho princeling can now better understand the widely



**2013 Yabuli China Entrepreneurs Forum: ideal platform for intellectual exchange among Chinese entrepreneurs**

held belief that “people should refrain from investing their money beyond Shanhaiguan”, i.e. beyond the most northern gateway along the Great Wall (a phrase adopted from a famous verse that “spring breeze never passes the Yumen-guan”, or the most western gateway).

The popular saying underlines the harsh business environment in China’s northeastern provinces, where the local economy has been suffering from a severe downturn (see WiC293).

Mao’s public attack on Yabuli’s local government, *Caixin Weekly* noted, is another notable example of how excessive state intervention has been holding back the development of China’s so-called rustbelt. “Investors have long complained about red tape, protectionism and lawlessness in the area,” the magazine said.

Moreover, Mao has also successfully triggered debates about state capitalism more generally.

“The [local] government is acting as a skier and the referee of the skiing competition at the same time. Via *Guojinmintui*, the state could take away all the profit from the private sector,” an op-ed in the *Securities Times* suggested.

“I was shocked after watching the ‘Yabuli comments’ of Professor Mao, who has always been a man of scholarly calm,” wrote Fan Wei, a professor at Tsinghua University, in an op-ed of his own in the *Economic Observer*. “A planned economy is about how to allocate a cake while a market economy sets out to make a bigger one... the government’s ‘visible hand’ has been too busy.”

#### **Are there similar cases?**

We reported exactly seven years ago

about the rapid rise of Cellon Communications and how the Shenzhen-based handset firm had taken Latin America’s mobile market by storm (see WiC93).

The company’s fortunes have since suffered a dramatic reversal. The reason: a falling out with the local government in Jiangxi’s Gongqing City which, tellingly, is the only Chinese city that is named after *Gongqingtu*, or the Communist Youth League (the political faction that has bred senior politicians such as former Chinese President Hu Jintao).

Cellon began to invest in Gongqing City in 2010. It was healthily profitable and the city’s biggest taxpayer until 2013 when the local government stopped banks from lending to the company. Cellon’s local unit eventually defaulted on a loan and according



to none other than the Global Times (a Party mouthpiece), its boss Dai Xiaquan was forced to sell off his stake to a senior Party official of Gongqing City.

Worse still, Dai was sentenced by a local court to two years in prison for tax evasion. His plight – after having been exposed by the TMT Post in October last year – has stoked nationwide rage.

Most of the reports about Cellon have since been taken down by state censors. Yet this month, the outrage brimming from Mao's video has been permitted to circulate on Chinese social media, uncensored. In fact, more entrepreneurs – who have similarly suffered from malign 'local' government intervention – have stepped forward.

Take Wu Hai, founder of the Orange Hotel Group, who caused a sensation in a 5,000-word open letter to Chinese Premier Li Keqiang in which he accused local government officials of trading favours with SOEs while treating private businesses like the "illegitimate children of prostitutes". The hotelier was subsequently invited to Li's office in 2015 to brief senior State Council officials.

Surely things have got better? Apparently not. "The local governments could easily accuse private sector entrepreneurs of different crimes from tax evasion, illegal operation to documentation forgery. They could put you in jail for several years or several decades. When you are released the world has changed and all your assets were grabbed by others," Wu wrote on his weibo this week, pointing out that Chinese bureaucrats are still engaged in "capricious policymaking".

### Will Mao be put in jail then?

Formerly a government official himself in Hubei and Hainan, Mao founded China Chengxin in 1992 but he was put under investigation



## Planet China

Strange but true stories from the new China

**THE PERFECT THIEF.** The last time a cat burglar got so much public sympathy was when Cary Grant played one in Alfred Hitchcock's *To Catch a Thief*. In that movie, of course, Grant's character John Robie was being framed. Fast forward to modern China and ThePaper.cn says this time netizens are sympathising with a thief from Sichuan for a different reason: because of his impressive professionalism and dedication to his 'craft'. When police arrested the thief in question they found among his personal belongings a notebook that included detailed plans of all Chengdu's police stations, roadworks and bus routes, plus candid evaluations he'd made after each theft as well as a section detailing his 'principles of crime'. He also made notes on trial runs he made prior to each theft. In his principles, he reminded himself to focus on taking only cash, gold objects and expensive alcohol, and even made a point of making sure the latter wasn't fake before absconding with it. That said some of the advice to himself was quite cryptic, such as: "Abandon the strategic requirement that a horse must run fast even without grazing and rectify the lazy style of work that one goes fishing for three days and dry the nets for two days."

Netizens were lavish in their praise for the criminal's notebook, lamenting he was a great talent "who had taken the wrong path" and might well be, thanks to his work ethic and meticulous planning "the most inspirational thief ever". Then again, he did get caught...

by the Party's Central Commission for Discipline Inspection (CCDI) in 1999. At the time, the CCDI was a less fearsome anti-graft watchdog (unlike today) and Mao was able to continue his entrepreneurial pursuits.

You'd rightly conclude it takes a certain bravery nowadays to embark on a public dispute with state officials in China. But while Mao is not related to the late Chairman Mao, a close business ally of his is.

Besides his involvement in ratings agency China Chengxin, Mao was also an early investor in Taikang Life, an insurer founded by Chen Dongsheng, the grandson-in-law of Mao Zedong (see WiC343 for Chen's profile).

Both Mao Zhenhua and Chen are Hubei natives and both resigned as government officials to start their own business venture following Deng Xiaoping's famous southern tour in 1992 (they became known as

'the faction of '92'). Chinese media says Mao is also vice chairman of China Guardian, the Chinese auction house controlled by Chen (who became the single biggest shareholder of Sotheby's in 2016).

Both Chen and Mao are founding members of the Yabuli China Entrepreneurs Forum. (Another key founding figure is Tian Yuan, who set up China's first futures company in 1992.) On the forum's official website, they describe themselves as "grass-root entrepreneurs", or people who founded their business from rags. Yet Chen, who is the Yabuli Forum's director counsel, is a member of another elite club: the *hongerdai* group, or children of the Party's revolution-era figures.

Being a red princeling won't necessarily exempt one from the wrath of the CCDI's anti-graft reach. Wu Xiaohui, formerly the chairman of Anbang Insurance and the grandson-in-law of Deng Xiaoping, for in-

stance, has been under investigation since the middle of 2017 (see WiC371) and remains detained. But it does give you more air cover than most, especially if you have the right princeling allies (this can be hard to decipher from the outside but is very obvious to senior Party members who understand the nuances of family loyalties and byzantine favour networks).

### The private sector's fightback...

Appropriately enough, Chen has also spoken out this week in support of Mao Zhenhua. When addressing a business conference in Shanghai, Chen began by suggesting that he, as a member of the Hubei business faction, has to learn from businessmen from Zhejiang.

What are the attributes to be learnt? "Firstly, to love the Party," Chen suggested uncontroversially, before adding Chinese entrepre-

neurs should also love their country as well as loving their hometowns.

Chen then went on to draw his audiences' attention to a directive issued by the Party's ruling Central Committee in September last year which, in sort of a historical first, recognised the contribution of private businesses and encouraged entrepreneurship. The document might strike most readers as bland but according to Chen it could also be interpreted as a game changer in the relationship between the state and the private sector.

"An angry outburst by Mao Zhenhua, a Yabuli director, has aroused the entire nation on our business environment," Chen said. "Unexpectedly in less than three days the Heilongjiang provincial government has sent in investigators swiftly. This is huge progress."

Meanwhile, the Supreme People's Court of China also issued a cir-

cular last week ordering courts nationwide to create "an entrepreneurial and innovation-friendly legal environment" while protecting the "legitimate interests of honest and trustworthy entrepreneurs".

One landmark case will be the retrial of Zhang Wenzhong, the founder of Hong Kong-listed retailer Wumart, who was jailed for 12 years in 2009 for fraud. Zhang's first petition was rejected in 2015 but his latest attempt to review his case was granted by the highest judicial body last month. Coincidentally, Zhang was also an active Yabuli Forum member during his heyday.

Over the past 30 years of rapid economic development China has always had a pendulum-like quality when it comes to the relative ascendance of SOEs and entrepreneurs. Perhaps January 2018 will be remembered as a moment when the pendulum began to swing back... ■

## Mahjong's losing the phoney war

Think of England and to many it will conjure up images of warm ale and a game of cricket on a village green. Turn to China and an equivalent image likely evoked is of pots of piping hot green tea and the clack of mahjong tiles being placed on a table. Mahjong is a quintessentially Chinese game, but as the South China Morning Post reported this month, its popularity is waning steeply, most especially in Hong Kong.

A new study shows that only one in 50 young people in the city now play the traditional Chinese table game at least once a week, down from one in 12 around five years ago. And in 2017 only 18% of Hongkongers between 18 and 64 years-old played the game at least once a month, versus 28% in 2012.

For decades gathering four players around a square table has been a favourite social activity for Hongkongers (the opportunity to gamble on the game's noisy outcome helps too). Families bonded over the game during festival like the Chinese New Year celebrations.

However, the findings by the Ipsos market research firm



suggest the game's popularity is evaporating, especially among the young. The survey of 5,074 locals showed only 6% of Hongkongers played the game weekly, versus 10% half a decade ago. Older people remain the greatest devotees but it is thought mahjong is losing out where younger players are concerned because of competition from smartphones, online games and social media apps.

# AT&T ditches Huawei

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

**1** French President Emmanuel Macron paid his first state visit to China along with 50-plus business executives. One of the biggest deals announced during the trip was a contract to buy 184 Airbus jets, estimated to be worth more than \$18 billion. Macron said President Xi Jinping had promised to “preserve parity” in market share between Airbus and its US rival Boeing.

**2** Chinese ride-hailing group Didi Chuxing announced the launch of a bike-sharing platform on its app. The offering will host affiliates Ofo and Bluegogo, as well as Didi's own brand in the future. Local media reported that Didi will take over Bluegogo, formerly the third largest of the bike-sharing apps in China before it went bankrupt in November.

**3** Over 1,500 Chinese companies registered to showcase their products at the Las Vegas' Consumer Electronics Show this year, making up 34% of the record turnout. A Chinese-backed electric vehicle builder called Byton drummed up much interest at the show with a concept SUV that featured a dashboard-spanning display. The start-up from Nanjing is said to have “tremendous support” from the Jiangsu provincial government.

**4** The government of the Inner Mongolia autonomous region has admitted to previously publishing erroneous data. As a result of the revelation the region's industrial output in 2016 will now be revised down by 40%, and its fiscal revenue by 26%, according to Xinhua. The



**Byton's electric car: starred at the Las Vegas CES**

confession came after Beijing made curbing financial risk a top economic priority last month. The Inner Mongolian government will now suspend Rmb50 billion of infrastructure projects so as to cut local debt.

**5** China is considering a plan to let high-quality companies involved in the Belt and Road Initiative conduct yuan-denominated initial public offerings in Hong Kong. “Through such attempts, the government hopes Hong Kong would be able to play a greater role in facilitating the initiative,” Zhang Xiaoqiang, vice-chairman of the China Centre for International Economic Exchanges.

**6** The People's Bank of China has reportedly loosened its grip over the yuan's mid-point reference rate against the US dollar. Reuters reported that the central bank had told other banks contributing to the daily fixing to adjust the “counter-cyclical factor” at their own judgement. The measure was introduced last May to help the PBoC stabilise the yuan's exchange rate.

**7** America's second largest telco AT&T pulled a deal to sell smartphones made by Huawei Technologies. AT&T was reportedly under “political pressure,” as members of the US Senate and House Intelligence committees expressed concerns about the Shenzhen-based company. It marks the second setback for Chinese companies trying to crack the US market in a week, following the failed merger between Ant Financial and remittance company Moneygram International (see page 9). ■



**Dodgy data: Inner Mongolian cities faked numbers**



# Buyers remorse

*Another lapsed acquisition points to HNA Group's ongoing liquidity woes*

**B**e honest and straightforward." It is one of the pledges every new employee has to sign up to when they join Value Partners, an asset manager listed in Hong Kong.

What, wonders WiC, would those employees have made of that pledge if an attempt of the company's founders to sell a stake to HNA Group hadn't fallen through last week? For straightforward is not a word which has recently been associated with the acquisitive, debt-laden and mysterious Chinese conglomerate.

HNA's secretive shareholder structure was recently sanctioned in November by Swiss regulators, which fined the group \$51,000 for providing "untrue" information during the takeover of air services company, Gateway Group. A few weeks later, German authorities also joined the fray, launching a formal investigation into HNA's purchase of a 9.9% stake in Deutsche Bank.

There has been ongoing speculation about HNA's links to China's former anti-corruption chief, Wang Qishan, most notably in the Financial Times (the company has consistently denied them). Wang left the Politburo last October and all eyes are now trained on the annual gathering of Chinese legislators in March to see if Wang is to be given a new role in the Chinese government.

One thing that is more certain is HNA's long list of bank creditors. These comprise pretty much all the great and the good of the state-owned banking sector. Given China is a country where the government has an active role determining the



Like it's logo, it's in the red

fortunes of individual companies, its major banks' attitude to HNA will be key to whether it is able to overcome its current liquidity issues.

According to a report on investment platform, FSMOne, HNA has Rmb185.2 billion (\$28.52 billion) of debt maturing in 2018 thanks to a \$50 billion acquisition spree over the last two years. This spending binge has been unravelling at the seams since the middle of last year when the government asked banks to give its financials a "health check", with the Value Partners deal being just the latest casualty.

In mid-December, HNA tried to reassure the market that it had Rmb300 billion available. Yet as FSMOne points out, HNA appears not to have tapped those credit lines, but carried on relying on "ultra short-term debt" to deal with immediate maturities instead. In the month to mid-December, Reuters reports that HNA group entities raised Rmb5 billion via this route in the domestic market on an average

interest rate of 7%.

Bloomberg suggests HNA had no option because some of its banks have been freezing unused credit lines, adding that HNA has already missed several interest and principal repayments in recent weeks.

FSMOne concludes that unless HNA "can issue long-term bonds, or draw up a concrete funding plan with its major banks," its future prospects remain highly uncertain.

This pessimism is certainly borne out by warning signs in the bond market. In November, for instance, one HNA unit sold \$300 million of one-year paper but the issuance came with an extremely expensive coupon of 8.875%. On December 9, this bond promptly collapsed eight points to 90 cents on the dollar when China Citic Bank issued a statement saying HNA Group was "experiencing temporary liquidity difficulties" repaying a commercial acceptance bill pledged by Hainan Airlines. Since then, the bond has rebounded five points after HNA said it had met its creditors and bought some of its bonds back.

Meanwhile one of HNA's major purchases of 2017 is being rejigged thanks to growing US security concerns about Chinese M&A purchases (see page 9). HNA agreed to buy 51% of Glencore's oil products storage business in March, but the US assets will no longer be part of the deal unless the Swiss-based commodity trader receives "satisfactory" clearance to sell them from Washington. One upside: for cash-strapped HNA this reduces the purchase price by 25% to \$579 million. ■

# Ant problem

*Why Jack Ma's Moneygram bid was rejected?*

**I**t is a truth universally acknowledged, that a single man in possession of a good fortune, must be in want of a wife," is the famed opening to *Pride and Prejudice*. Less well known is how Jane Austen completes the paragraph: "However little known the feelings or views of such a man may be on his first entering a neighbourhood, this truth is so well fixed in the minds of the surrounding families, that he is considered as the rightful property of some one or other of their daughters."

But that empirical rule – for both human wooers and corporate deal-makers – that those with vast wealth are guaranteed a betrothal has now been trumped. Now, it seems, worries about Big Data and national security – at least in the M&A context – can lead to even the richest suitor being jilted. That explains why Ant Financial, controlled by Chinese tycoon Jack Ma – who'd promised to create one million jobs in the US in the next five years – was deemed last week an undesirable mate for the otherwise keen Texas-based remittance company MoneyGram.

The increasingly powerful Committee on Foreign Investment in the United States (CFIUS) ruled that Ant's \$1.2 billion takeover of the American firm would pose national security threats. The big concern: Alibaba's payment unit would be able to unlock a massive library of personal and financial information, including those of US government employees and military personnel.

This is despite Ant's pledge to keep MoneyGram's data stored in US-based servers, as well as to retain

its headquarters and management team in Dallas.

But where Chinese acquisitions in the US are now concerned, any nuances as to the buyer's background seem to be getting lost in a broader hysteria. Robert Pittenger, a Republican congressman, told Politico last year, for example, that he's wary of Beijing leveraging MoneyGram's database "to harass dissidents, journalists and human rights activists who dare challenge the Chinese Communist Party". The Politico report noted that much of MoneyGram's infrastructure lies inside or within a few miles of some of the largest US military installations, where soldiers, their families, and defense contractors wire money regularly.

Pittenger's immediate association of Ant and the Chinese government is likely framed by the discussions surrounding China's new cyber-security law. The regulation, which came into effect last June, requires network operators in China to cooperate with the country's crime or security investigators. That effectively grants Chinese authorities access to data owned by private enterprises as well as foreign companies operating in China.

Critics said the law will particularly impact cross-border service providers because all information stored in the Chinese servers will need to be examined and assessed before being transferred out of the country. Multinationals had lobbied to push back the implementation of the law to 2019, so as to buy time to separate their Chinese networks



**Left at the altar: Ant's Ma**

from their global ones.

It did not help Ma's cause that North Korea's escalating missile programmes and Sino-US economic tension have soured the bromance between presidents Donald Trump and Xi Jinping. "The geopolitical environment has changed considerably since we first announced the proposed transaction with Ant Financial nearly a year ago," said Alex Holmes, MoneyGram's CEO.

In another blow for China Inc, America's second largest telecoms carrier AT&T, this week pulled out of a landmark deal to distribute smartphones made by Shenzhen-based Huawei. AT&T declined to explain its withdrawal from the alliance, which was slated to be announced at this week's Las Vegas Consumer Electronics Show, according to the Wall Street Journal. But The Information reported that "political pressure" came into play – and again, concerns about American data somehow falling into Chinese hands (see WiC168).

Last January Ma assured the World Economic Forum in Davos that Trump was "open-minded. He is listening" and that he should be given some time. The Chinese tycoon – who was treated last winter to a summit-like meeting with Trump at Trump Tower – also dismissed worries that the world's two largest economies would clash.

Ma could be forgiven for feeling differently now... ■



# New lease of life

*Why property majors are rapidly turning themselves into landlords*

When Shenzhen developer Shum Yip first purchased the land Sky Park now sits on, it envisaged a high-end residential development that would be anchored by a five-star hotel and retail space. It had reasons to be optimistic. The project is located near a number of top schools in Shenzhen and local home prices have nearly doubled in the past two years.

What it didn't foresee, however, is a sudden change in the Chinese government's housing policy, with Chinese President Xi Jinping reiterating an earlier directive that "houses are for living, not for speculation". To that end, the Shenzhen government has followed the policy headwind and imposed measures to rein in runaway prices, which includes setting a price ceiling on new homes. As a result, sales of luxury homes have screeched to a halt.

So Shum Yip quickly changed tack. Last week, the developer announced that Sky Park would no longer be available for sale. Instead, interested buyers can consider renting.

The developer is not the only one that has recently expanded into residential leasing. In Shenzhen alone, there are over 100 property firms – including some of the biggest developers like Vanke – that have launched their own rental projects, says Securities Times.

Country Garden, another property heavyweight has just unveiled its BIG+ project. About 400 apartments, which average 35 square metres in size, are now available for monthly rents between



## Better to rent than buy?

Rmb2,800 (\$430) to Rmb4,000. Country Garden says its goal is to develop over a million apartments for long-term renting nationwide by the end of 2020.

Upstarts with cool names like You+ have also been set up to provide some of the rental housing. With their stylish set-up (the communal area is an open kitchen where residents can cook together and hang out) and trendy designs (lofts are not just for college kids), some of these new developments have attracted twenty-something renters. Lei Jun, the tech tycoon behind smartphone maker Xiaomi, is an investor in You+.

Nevertheless, for developers, expanding into the rental market is born, in part, out of necessity. Instead of relying on public housing to plug residential shortages, many local governments have now made the rental market its primary focus. Some have even limited the supply of land for sale and designated them

strictly for rental properties.

The central government has also introduced a pilot programme in major cities where tenants of rental properties will enjoy the same access to public services and welfare as local home owners. The move removed what was one of the biggest incentives for migrants to buy rather than rent (see WiC378).

But China is still a long way to go from a fully developed rental market. At the moment, the majority of landlords in the country are private individuals. A recent statistic from Leju, a real estate news portal, reveals that just 3% of the market was owned by institutions, compared with 30% in the US.

The biggest problem for commercial landlords is the huge upfront investment and the slow cash inflow. In response, state-owned banks have been instructed to give out favourable financing on rental property projects. Citic Bank, for instance, has offered Country Garden a total of Rmb30 billion of funding to fuel the growth of its rental business, says China Economic Times.

The government has also released new rules that allow developers to issue asset-backed securities backed by rental incomes.

More recently, China Young Professional Apartments (CYPA), a Beijing-based condominium operator, has issued Rmb270 million worth of securities backed by its rental income, says Caixin Weekly. Perhaps it won't be long before we see the emergence of a much bigger real estate investment trusts (REIT) market. ■

# Eye on the money

*A Tencent-backed Hong Kong eye clinic becomes city's hottest IPO for years*

Thanks to the rapidly increasing demands of mainland Chinese patients, these have been heady times for Hong Kong's private healthcare sector. But the good times have not blessed all: a number of the city's highflying doctors have faced disgrace recently.

Take Stephen Chow, the boss of the beauty clinic DR Group. The 63 year-old physician was given a 12-year sentence last month for manslaughter following the death of a patient, who was given experimental cancer therapy during her beautification treatment. In a damning verdict, a judge slammed Chow as a "money-hungry" individual who cared little about his professional ethics.

Roy Cho, a billionaire financier – known to local stockbrokers as "the Doctor" because of his medical practice – was also caught up in the Hong Kong's largest graft crackdown in a decade. Following a raid by investigators last month on the offices of Convoy Global, a listed insurance broker, a writ was filed accusing Cho for masterminding a "sophisticated scheme" to misappropriate shareholders' money. The legal filing suggested Cho, a former executive director of Convoy Global, had fled Hong Kong.

Then of course, there's Patrick Ho, a renowned ophthalmologist who had performed surgery on senior Chinese politicians. He is still under detention in New York having been indicted on bribery and money laundering charges almost a month ago, reportedly because of his role in advising Chinese energy firm



Dennis Lam (middle) speaks at C-MER's press conference

CEFC (see WiC390).

It might be inferred that these heavy hitters are in trouble because they have ventured too deeply into business – rather than focusing on their medical practices. Yet with so much money at stake, many of their counterparts are trying to combine their medical acumen with business.

One of the more successful doctor-turned-entrepreneurs is Dennis Lam. The ophthalmologist founded his own eye clinic C-MER in 2012. One year later, his company expanded in Shenzhen, becoming the first Hong Kong entity to own an ophthalmic hospital in China. The 57 year-old was welcomed in the mainland because specialists like him are lacking. Moreover, his long track record of charity works has also won him a lot of friends and fans.

For instance, Lam is the founder of Project Vision Charitable Foundation, an organisation that aims to eliminate cataract blindness in China. In 2013, when C-MER was setting up shop in Shenzhen, China

was gripped by a grim case that saw a 6 year-old boy's eyes gouged out by an aunt during a family row. Lam gained nationwide fame for offering to treat the boy for free.

His efforts have paid dividends. C-MER's Shenzhen branch had 28,000 visits during the first half of last year, giving Lam's company more than 4% of a fast-growing market. Lam plans to open another branch in Beijing later this month.

The prospects for C-MER look promising. Indeed, they are potentially so good that Lam's firm is set to become the first of its kind to go public in Hong Kong in an offering that will value C-MER at HK\$3 billion (\$385 million), or nearly 70 times its earnings.

This lofty valuation has not deterred retail investors from chasing Lam's stock. According to Bloomberg, individuals buyers have placed orders for at least 1,557 times the number of shares C-MER initially set aside for the retail tranche in the sale, making it the hottest IPO the territory has witnessed for more than a



decade (the stock will start trading on Monday).

Apparently part of C-MER's appeal comes from one of its cornerstone investors: internet tycoon Pony Ma. The Tencent boss, just like Lam, is a Shantou native.

Meanwhile, Lam has told investors that C-MER will continue to expand in China. The company might even seek cooperation with Tencent's medical unit in the future.

Ma might be interested in adding eyecare to Tencent's future business plans. At the Fortune Global Forum in Guangzhou last month, Ma told the audience that he has been worrying about the deteriorating eyesight of the Chinese (including his own), admitting that everyone is spending too much time looking at their screens as they use his company's all-consuming social media platform WeChat...

## Taking a jab

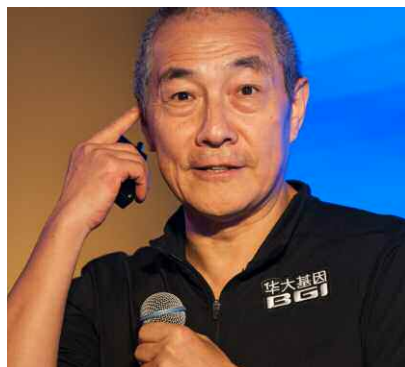
*BGI founder's vaccine comment spooks outcry*

**P**revention, detection, treatment. Over the centuries that has become the gold standard for controlling disease.

But last month Wang Jian, the head of the Beijing Genomics Institute (BGI), ruffled feathers when he appeared to have suggested a vaccine wasn't necessary – at least in the case of cervical cancer – and said Chinese women should take instead his company's cheap, self-administered tests for the virus that causes the cancer.

"If rich people with nothing else to do want to get the vaccine that is fine. But for the common people I think our test is better," Wang said.

His comments fit into a wider debate about how to better protect Chinese women against cervical



**Wang Jian: has a controversy gene**

cancer. Over 100,000 women are diagnosed with the illness every year, roughly double that of Western countries such as the US, and around a third of those Chinese women die. But until last year Chinese women did not have access to a vaccine to help protect them against human papillomavirus (HPV) – the sexually transmitted disease that is connected to almost all cases of cervical cancer.

Cervarix and Gardasil – the two HPV vaccines currently approved for use in China – are produced by British-based GlaxoSmithKline and the American company Merck.

While teenage girls are routinely offered the shot in countries like the UK, Chinese women have had to travel overseas to get it – most commonly to Hong Kong.

When the first shipment made it to Chinese clinics in the autumn there was not enough to meet demand. Indeed, some clinics still have long waiting lists, despite that fact that people have to pay upwards of Rmb2,200 (\$338) to obtain the short course of injections.

In fact, Wang was not suggesting that Chinese women shouldn't receive the vaccines against HPV. He was trying to sell BGI's latest offering as an early-detection measure that could save medical resources.

Wang's point is that the vaccination is too costly for many Chinese, and that his own Rmb50 home test kit is more affordable. Women in re-

mote areas can also use the kit and send it off to get the results. Some local governments are already equipping local health workers with the BGI test.

In past interviews Wang has also spoken out about his desire to roll the test out globally to help women in remote parts of India and Africa.

Yet many Chinese watching his most recent Tencent interview were angered because he got basic facts wrong, seemingly with the goal of promoting his product.

Vaccines against HPV do not need to be repeated every five years, as he said, nor is there any evidence to suggest that Western vaccines are less effective on Chinese people because of genetic differences.

"Detection cannot replace prevention," rebutted Sina News.

"A high-tech company, whose products are used by people, should have a culture of honesty and a respect for science," a gynaecologist also hit back in the Southern Metropolis Daily.

Yet Wang is no stranger to controversy. Shortly after BGI was founded in 1999 it was kicked out of the Chinese Academy of Sciences for being "too crazy"; some are uneasy about the firm's research into the genetic causes of intelligence.

Wang himself is a colourful character: a fitness enthusiast who has climbed Mount Everest, he is rarely seen in anything other than sports clothes and he speaks in a straightforward, unpolished manner.

His relationship with the Chinese government can be strained. Wang has criticised the Communist-led system for stifling ambition and innovation. In 2007 BGI left Beijing and moved to the southern Chinese city of Shenzhen, to be as far away from the establishment as possible (see WiC195).

With that background, Wang is unlikely to be fazed by the public outcry he has just stoked up. ■

# A crisis waiting to happen?

*Author discusses the potential trouble ahead for Sino-Japanese relations*

**F**rom the earliest editions of WiC (see issue 14) we have argued that one of the most volatile and potentially dangerous relationships the world faces is between a rising China and a nervy Japan that feels threatened by this geopolitical shift. Thankfully there is now a book that discusses this topic with the thoroughness, intelligence and insightfulness it deserves.

Richard McGregor's new book *Asia's Reckoning: the Struggle for Global Dominance* is a masterful history of Sino-Japanese relations. It benefits from painstaking research and the author's own time living in both countries as a correspondent (he was a longtime bureau chief for the Financial Times in Beijing). The Australian journalist, who previously wrote *The Party: the Secret World of China's Communist Rulers*, this week spoke to WiC about the strained relations between East Asia's two major powers and whether it is likely to get worse, and possibly even spark belligerence in the years ahead.

**Would you date 1895 as the start of Sino-Japanese animosity or would you put it even earlier?**

If you are looking at modern history, then 1895 is your starting date, the moment that Japan defeated China in a war and took possession of Taiwan. Combined with the defeat of the Russians in 1905, both events announced Japan's arrival as a major world power, and the first in the modern times from Asia. True aficionados of the bilateral relationship trace the mutual antagonism



**McGregor: Sino-Japanese expert**

ism way back, however, from the 6th and 7th centuries onwards, where there was a lot of conflict and squaring off over many centuries. My book, however, really covers the postwar period.

**Can you explain the legacy of the War of Japanese Aggression (1937-45) and the disputes (eg over Nanjing) that still cause such disagreements between Chinese and Japanese historians today?**

History is one thing – Japan did invade China and the Rape of Nanjing is not fake news, despite the periodic grating denials from some far-right Japanese politicians. But the history of the 'history wars' is altogether different, and layered with hypocrisy and politics on both sides. In the 1950s, 60s, 70s, and really into

the mid-80s, China never made much of an issue of history, both internally and in dealing with the Japanese. Remember – the core narrative of the post-revolutionary period was that China was a victor in the war and its aftermath. The narrative, portraying China as a victim of the Japanese and others, didn't change until much later, in the 1980s and 1990s.

I think the key moment was the 1972 agreement to restore ties between the two countries. Japan muttered some anodyne expression of regret which was fine with China as they had other fish to fry – notably forming a united front against the Soviet Union and getting aid from a successful Japan. Considering what had happened between the two countries, and the memories of the bitter conflict among the Chinese people, this was a big mistake. There was no ceremony, no landmarks, no attempt to get a shared sense of history when diplomatic ties were restored, so when China did decide they wanted an apology, the Japanese struggled to handle the issue in a clear and forthright fashion.

**Why did Mao Zedong not put the issue of a Japanese war apology to rest in the 1960s?**

Mao didn't care about apologies. He was only interested in geopolitics. He was also an unassailable dictator, so his policy of not pursuing an apology was really holy writ throughout the system. Famously, he even thanked the Japanese for invading China, as it allowed the CCP (Chinese Communist Party) to de-



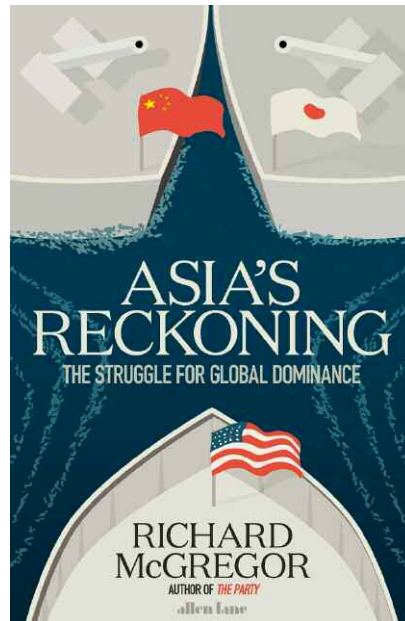
feat the KMT in China's civil war. Only Mao could get away with such a statement.

So Mao was a big part of the problem. The fact that he dismissed the importance of the war and didn't bother with commemorating events like the Nanjing Massacre was an important factor in persuading Japanese conservatives that history didn't matter. They got a big shock when they discovered that history hadn't gone away after all. Naturally, they were forever cynical that the issue was only being used as political leverage.

**Your book says the high point for Sino-Japanese relations was the early period of reform and opening under Deng Xiaoping. Why?**  
In a nutshell, Japan was strong and China was weak. China needed Japan. Deng himself was very practical and understood what Japan had achieved. Deng in fact visited Japan in 1978 before he made his famous trip to the US and it had a huge influence on him.

By the same token, Japan wanted good ties with China, for emotional and practical reasons. Japanese leaders, by and large, did carry great remorse about the country's lapse into militarism in the 1930s. They were also very commercially minded and saw China as a country that could be converted to capitalism, to Japan's enormous benefit.

Personalities mattered as well. In Japan, Nakasone Yasuhiro worked hard to build ties with China and made concessions on history issues at Beijing's request. In China, Hu Yaobang went out of his way to court Japan, so much so that conservatives in Beijing attacked him for being too pro-Japan in 1987 when they toppled him from his position as the CCP Party secretary. The turn against Japan in China, in fact, ran in close parallel with the turn against liberalism in the CCP.



**Could China have developed to where it is today without Japanese aid and investment in this period? Do the Chinese acknowledge this assistance?**

China would have developed one way or another with or without Japan. But there is no doubt that Japan helped greatly. Japan was a model in a policy sense in the early days of China's 'reform and opening'. Many of China's policies and headline gimmicks – such as holding down military spending and targets to double GDP and income – all had their origins in Japan.

Japanese financial aid was also crucial. The world is wowed these days by Chinese infrastructure. But the first wave of roads and airports and the like in the 1980s were funded by the Japanese, and they rarely got the credit for it. Occasionally, if relations were going well, then the official Chinese press would laud Japanese aid. Just as often, they would bury news of Japan's generosity. The plaques memorialising Japanese aid were rarely displayed in prominent positions. To this day, many Japanese remain bitter about this.

**In the wake of the social turmoil**

**in China in the late 1980s, patriotic education in schools became more important. Can you explain what patriotic education boils down to and what it meant for Sino-Japanese relations in more recent times?**

Patriotic education is quite natural in many ways. Every country does it to varying degrees. Look at the reverence afforded the flag and the pledge of allegiance in the US, to take one example. But in China's case, the explosion in patriotic education in the early 1990s in the wake of the 1989 military crackdown on demonstrators in Beijing and elsewhere has a very specific political context. The demonstrations in 1989 were an existential threat to the CCP. They needed to build a narrative which would implant in young Chinese the notion that the Party had rescued an enfeebled China and returned it to its proper place on the global stage. Since this was a CCP campaign, it was enforced ruthlessly. Remember – during the 1950s, the Nanjing Massacre was barely mentioned in the People's Daily, then a good barometer of political dialogue. Today, the Nanjing Massacre is centre stage, along with other memories of the war.

The CCP's narrative has many flaws, not least the fact that it wasn't the CCP who fought against and beat the Japanese. The main players in that conflict were the KMT and the US-led allies.

**In the late 1990s then-Premier Zhu Rongji said to Japanese counterparts they would regret not apologising to his generation for the war. Do you think he was right given the more combative course relations have taken in the past five years?**

Was Zhu right? Yes and no. By the time he made that comment, the issue has already become overlaid by a decade of politics and recrimina-

tion. Also, Zhu made his comments in the wake of President Jiang Zemin's 1998 trip to Japan where he ranted in public, including in front of the Emperor, about the war and the need for an apology. The Japanese never forgot that. So Zhu's comments in that respect were a little gratuitous.

Zhu, however, had a point in one respect. The generation of leaders coming after him and Jiang would not necessarily have been more anti-Japanese. But the new breed would have been more nationalistic and in charge of a country that demanded its leaders display China's might in the world and in the region. They were also in charge of a much more powerful country with the means to bend Japan to its will.

**To Chinese minds, has Tokyo delivered a satisfactory written apology for the war, or does that remain an ongoing source of contention?**

I think the issue of a "written apology" is one of semantics. Japan has apologised often and in many different forums. From the Japanese perspective, the Chinese always seem to be moving the goalposts and demanding more. On the Japanese side, the problem is that there has always been some recalcitrant right-winger who will make some outrageous statement undermining the official apologies. So Japan apologises, and then it, in not so many words, it unapologises. So the whole process is drained of meaning and impact.

**Why did it take till the Obama era for American policymakers to understand the seriousness of these post-World War Two legacy issues and their still corrosive impact in East Asian politics?**

A number of reasons. America had its own skeletons in the closet, such



**Let's agree to disagree... for now**

as the bombings of Hiroshima and Nagasaki. Many officials underestimated the problem. Many also thought that any US intervention would only make things worse. And finally, the Japanese, a close ally, warned the US against it. Efforts by the Chinese to raise their shared anti-Japanese history, of course, was only seen as deeply cynical by Washington and was counter-productive.

**From a sovereignty point of view the disputed Senkaku/Diaoyu islands remain an open sore in relations. Based on the detailed analysis of Sino-Japanese history recounted in your book, do you think this is a fundamentally unsolvable issue?**

It is very difficult to solve because it relates to an issue of sovereignty. That makes it toxic in both political systems. Thus, it can only be managed rather than "solved".

**As China's rise continues and America's defence commitment to Japan comes more into question – particularly in the Trump era – do you think Tokyo will move to also become a nuclear power?**

There is a very good chance this will happen. It could also happen very

quickly, with one proviso. It is an open secret that Japan has the capability and resources to build a nuclear weapon. But public opinion would need to move a long way before Japanese voters were actually in favour of it. Japan has made a fetish of being anti-nuclear for more than 70 years. It will not be easy to unwind such deeply entrenched views.

**What probability would you put on their being a war between China and Japan in the next couple of decades?**

I didn't call my book "The Coming War between Japan and China" because I didn't think one was imminent. But the chances of some kind conflict have risen. Certainly, I was told that in 2012, China considered some kind of military response to Japan's nationalisation of the Senkaku/Diaoyu islands. My own view is that China is not interested in going to war. They want to keep the pressure on Tokyo to force them to negotiate over the islands. Having said that, the chances of some kind of collision at sea and the like forcing a confrontation has risen. As has conflict in the region generally, over the South China Sea, and North Korea. ■



# Moon ride

*Dockless bikes to help drive China's satellite navigation system's ascent*

Cinema's most famous encounter between the skies and a bike took place 36 years ago in Steven Spielberg's blockbuster movie *E.T.* In a famed scene the 10 year-old protagonist Elliott and his alien friend fly through the night sky pedalling on a BMX bike past a bright silhouetted moon.

That same link between the heavens and the humble bicycle was resurrected lately in China. The reason? As the country increasingly fills its cities and towns with millions of dockless hire bikes, a corollary boost is being given in the skies above to China's home-grown satellite navigation system, known as Beidou.

'Beidou' is the name the Chinese give for the asterism known in the US as the Big Dipper and the Plough in the UK (it features seven stars shaped like a ladle). For the ancient Chinese, it was used to discover directions and identify location. As a name, Beidou is therefore apt as a rival to GPS, the global positioning system established by the US and the less internationally dominant Russian equivalent GLONASS.

First tested in 2002 and finally operational in December 2011, Beidou was a key part of the space programme that Deng Xiaoping launched in 1986 to close the technology gap with the West. This lofty ambition is getting closer to realisation today, especially after a pact was inked in early December between Beijing and Washington to promote interoperability between GPS and Beidou. (An earlier deal was also signed by Beidou with GLONASS.)

The pact, said Global Times, will



Ofo bikes are found via Beidou

allow both countries to take full advantage of all their existing satellites. "It is like subscribers of one telecom company now using a competing carrier and roaming between the two networks at no extra cost," a Beidou expert explained.

Ran Chengqi, Beidou's spokesperson, noted at a press conference last year that over 50 million chips connected to Beidou's system have been sold in the past five years. Their prices have also come down from more than Rmb200 (\$30.77) a piece to Rmb6, now matching those of a GPS chip.

Beidou-based tracker chips have thus far been installed in 19,000 delivery vehicles, 1,500 trucks, 33,500 taxis, and 21,000 buses in the capital city, plus in 4.8 million dangerous goods vehicles and 40,000 fishing vessels nationwide.

But to extend Beidou's reach globally, China is partly counting on its on-demand bikes that are being used in at least 20 countries around the world. Unlike older systems that

mandate that bicycles should be parked at fixed stations, these bikes are tracked by satellites via users' phones, and secured by locks linked to mobile apps (see WiC339).

While Tencent-backed Mobike is still relying on GPS, its archrival Ofo has agreed to apply Beidou-enabled smart locks to its fleet. Beijing, Tianjin and Hebei province, or the so-called Jing-Jin-Ji region, will pioneer the first batch of Beidou bike locks.

"The Beidou locks are tailor-made for bicycles in the sharing-economy sector," said Ofo CEO Dai Wei. "As we further venture into overseas markets, we will help bring the Beidou navigation system to other countries in future," he added.

On the back of a growing range of applications for self-driving cars, the Internet of Things (IoT) and 5G networks, China's satellite market – growing at 15% annually since its inception – has the potential to reach Rmb400 billion in revenues by 2020, according to Ran. That compares with Rmb250 billion last year, according to 21CN Business Herald which says 80% of that was accounted for by state-owned Beidou.

Analysts suggest Beidou still lags behind GPS in terms of its stand-alone geographical coverage, but the Chinese in turn claim their system has technological advantages: it can handle text messaging and can track to within millimetres.

China is preparing to launch another 16 satellites to cover Belt and Road countries this year. And by 2020 Beidou will boast full worldwide coverage with a total of 35 satellites. ■

# Rap sheet

*An alleged affair sees a top rapper pilloried by state media and lose deals*

The divorce between actor Wang Baoqiang and his wife was arguably the biggest celebrity scandal to grip China in 2016. For much of last year nothing came close to the social media fervour Wang caused by publicly shaming his wife (who'd cheated on him with his agent).

But just as 2017 was about to end as a drama-free year for the country's celebrity couples, married actress Li Xiaolu grabbed headlines after the 35 year-old was photographed leaving the Beijing home of popular rapper PG One in the small hours. Married to actor Jia Nailiang and the mother of a 6 year-old daughter, Li had reportedly spent a night with PG One, who is 24. Other photos also showed the two linking arms in the dark. The pictures were published by Zhuo Wei, China's "No.1 Paparazzo" (see WiC9), and they instantly went viral.

All parties instantly went into damage control mode. PG One, who gained fame on *The Rap of China*, one of the biggest hit TV shows of last year (see WiC378), was the first to issue a statement, explaining that he is a close friend of the couple. He also apologised to Jia for "not acting with decorum" by appearing too intimate with his friend's wife.

Li, too, wrote, on her weibo saying that her meeting with PG One – albeit in the middle of the night – was actually a business meeting because she is producing a film about hip-hop, a genre that has started to gain momentum in China. She ended the post by saying she will nevertheless do some "self-reflection" on her behaviour.



Li Xiaolu: ended 2017 in the headlines, but not in a good way...



Her husband, meanwhile, broke his silence by publishing an open letter on weibo urging onlookers to give the couple space as they deal with what is ultimately “a family matter”.

Jia’s plea, obviously, has been ignored. The latest scoop by China’s No.1 Paparazzo prompted a landslide of speculation about his marital status. Many surmised that Li and Jia have secretly parted ways. Others were quick to assume that Li was cheating on her husband, and many threatened to boycott her movies and shows in the future.

While the couple tried to sort out their issues, swathes of their fans directed their wrath at “the other man”.

Hip hop is not a pop culture the Party’s propaganda officials would like to encourage. For decades the genre has largely stayed under-

ground and it remains a frequent target of state censors in recent years.

PG One’s alleged affair with Li has made him a target of practically all the major state-run media outlets.

His lyrics have been singled out as being lewd and misogynistic. For instance, his song *Christmas Eve* was chided for its obscene language where he boasts about forcing himself on a woman while he also raps about the use of “pure white powder” (not, presumably, talcum).

The China Women’s News, which is published by the All-China Women’s Association, posted an opinion piece on social media saying that the lyrics were “offensive to women”. It also accused PG One of “instigating drug use among youths and publicly insulting women”.

The song didn’t go down well with the Communist Youth League.

The powerful political group, which is in charge of grooming young Party cadres, complained on its official weibo that the song contained “degrading and out of line” lyrics which “encourage teenagers to use drugs” and “insult women”.

Xinhua took it a step further in its own online commentary: “Vulgarity cannot be branded as an individual character, and infamy cannot get you money. This kind of singer disrespects the industry and the audience... Even though he is the former champion of a singing content, he does not deserve his own hip-hop stage. We should also say no to those who provide a platform for spreading such vulgarity.”

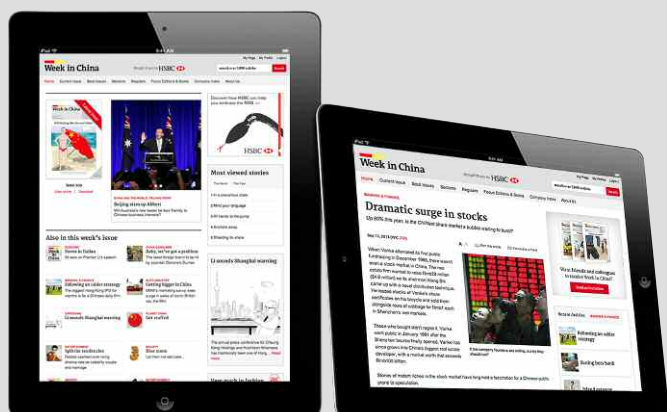
The beleaguered rapper later explained that the obscene lyrics were inspired by “early exposure to hip-hop culture” and the “deep influence of black music”. But, he also

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**Week in China**



**PG One: the only man to have had a worse week than Steve Bannon?**

concluded he may have erred as “the spirit of hip-hop should always be peace and love.”

But the apology did little to pacify either the media or internet users.

“First he talks about doing drugs and then he sings about forcing himself onto women and now he hooks up with his friend’s wife. There is nothing redeemable about this man,” one netizen thundered

“What does insulting women have to do with black music? Strictly speaking, this is racial discrimination,” another said.

“While the hip-hop culture is indeed an integral part of the American black culture – and sex and drugs are often cited in the hip-hop music – to use ‘black music’ as a shield is simply not acceptable,” Jiefang Daily, a newspaper run by the People’s Liberation Army also weighed in.

For iQiyi, all the controversy surrounding the rapper could be damaging. The online video site, which is already gearing up for the second season of the reality TV competition *The Rap of China* that made PG One

famous, could find the show being axed if the censors deem it – and its contestants – too unsuitable for younger viewers.

Industry insiders say the scandal could even derail the development of hip-hop in China.

“It remains to be seen whether the second season of *The Rap of China* will get the government’s approval after all the scathing commentary from the state-run newspapers. This affects not only PG One as an individual, but the entire hip-hop culture. From now on, media watchdogs and police would pay close attention to all the hip-hop performances and related shows. Investors who put capital in the hip-hop variety shows and artists should be careful,” a columnist wrote on Hexun, a portal.

People’s Daily concurred. “It is more important to think about how hip-hop culture should be guided than to criticise individual singers,” the state-run newspaper warns.

For PG One, the scandal has proven to be hugely costly.

Already, all his songs have been

pulled from the major music streaming platforms. Similarly, all his appearances have been cancelled and a nationwide tour has been postponed indefinitely. Endorsement deals – he is the ambassador for McDonald’s and Estee Lauder – have been called off too.

Li, too, has found her career unravelling.

The actress, who was the youngest ever star to win best actress at the prestigious Golden Horse Awards, has already seen all her scenes edited out of an upcoming TV series. Even her guest appearance on a variety show was pulled at the last minute.

And her upcoming performance on Dragon Satellite TV’s Spring Festival Gala show next month has also been cancelled... ■



## Keeping track

In WiC382 we looked at the struggles in China of star Argentine striker Carlos Tevez, who’d failed to make an impact with local club Shanghai Greenland Shenhua. The footballer had been bedevilled with injuries and scored only a handful of goals. Perhaps this would have mattered less if: for one thing, he wasn’t earning \$875,000 a week (making him the world’s best paid soccer player); and second, he hadn’t bad mouthed Chinese soccer, saying of local players “technically they aren’t very good” and predicting the local league would not reach European levels “even in 50 years”. The writing seemed to be on the wall as far back as September when Shanghai’s chairman said he “hadn’t met expectations” and the new coach called him “overweight”. This month, after just 20 appearances in China, Tevez returned to his old Argentine club Boca Juniors for a third stint. The 33 year-old will have taken a massive pay cut.



# Mr 'She'

*How does Xi Jinping fare in Wolff's Trump book?*

It will likely be the most controversial political book of the year – and we are not even a fortnight into 2018. But what does Michael Wolff's *Fire and Fury: Inside the Trump White House* tell us about Washington's relations with China?

Not an enormous amount, is WiC's verdict after reading it – though for policymakers in Beijing it will likely be undergoing a speedy translation into Chinese for the many lessons it holds about Trump's character, psychology and reading habits. Certainly it is impossible to imagine a book as revealing as this about President Xi Jinping ever appearing on bookshelves.

Xi and China's first lady make only a brief appearance in Wolff's narrative. This occurs when they visit Trump's Mar-a-Lago resort for a summit and a dinner (during which they ate Dover sole, haricots verts and Thumbelina carrots while Trump bombed Syria). We learn that ahead of their visit Trump required tutoring, not least because he would refer to the Chinese leader as "Mr X-I" and instead was "told to think of him as a woman and call him 'she'."

Wolff also says that China's first couple grasped how to deal with Donald Trump very fast. "They were in an agreeable mood, evidently willing to humour Trump. And they quickly figured out that if you flatter him, he flatters you."

At the other end of that Mar-a-Lago dining table was the hostile presence of Steve Bannon, the most Sinophobic person in the entire Trump government. Wolff makes Bannon's China views plain towards the beginning of the book describing a dinner in late 2016 he attended between the Trump strategist and former Fox News boss Roger Ailes.

As Bannon warns Ailes: "China's everything. Nothing else matters. We don't get China right, we don't get anything right. This whole thing is very simple. China is where Nazi Germany was in 1929 to 1930. The Chinese, like the Germans, are the most rational people in the world, until they are not. And they're gonna flip like Germany in the thirties. You're going to have a hyper-nationalist state, and once that happens you can't put the genie back in the bottle."



**Says China is like 1930s Germany**

In some ways there is a kind of symmetry to the book's structure. Bannon attacks China in the first chapter and in the last it is an interview he gives about China (and the related issue of North Korea) that finally leads to his being fired from the Trump administration. In it he speaks stridently (and without prior White House permission) to *American Prospect*, and returns to his earlier anti-China theme, but in doing so implicitly criticises the president's soft handling of Beijing. "To me the economic war with China is everything. And we have to be maniacally focused on that. If we continue to lose it, we're five years away, I think, 10 years at the most, of hitting an inflection point from which we'll never be able to recover," he tells the US public policy magazine.

And as to Bannon's many salacious and derogatory comments in Wolff's book, a furious Trump last week gave this verdict: "He not only lost his job, he lost his mind". ■



## Two-way boulevard

"The ancient Silk Roads were never only Chinese"

President Emmanuel Macron (see also Photo of the Week on Back Page) elaborates on his counterpart Xi Jinping's Belt and Road Initiative during a visit to China this week. "By definition, these roads can only be shared. If they are roads, they cannot be one-way," he said, adding Europe was "back" and needed to work closely with China on the project. "These roads cannot be those of a new hegemony, which would transform those that they cross into vassals."



**Emmanuel Macron**

## Photo of the Week



Photo: Imagine China

At the head of an army: French President Emmanuel Macron starts his trip to China with a visit to Xi'an, an ancient Silk Road gateway

## Where is it?

Some of the places referred to in this issue



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## In Numbers

### Rmb5.4 trillion

The value of China's domestic tourism market in 2017, up 37% from a year ago. The number of travellers in the period also grew 12.6% to 5 billion, with each making 3.7 trips on average. Tourism created 80 million jobs last year, contributing 11% to the Chinese economy.

### \$3.14 trillion

The level of China's foreign exchange reserves by the end of 2017, following 11 consecutive months of increases. December saw the biggest monthly gain since July, at \$20.2 billion.

### 1,400

The number of infant milk products to be removed from store shelves because of a new stricter registration system by the food safety regulator, which came into effect this month. Danone and Nestle are the market leaders with roughly 20% of formula sales in China.

### 16,000

The number of electric vehicles sold by BAIC in November. That represents 16% of the global market in the same period. China's EV sales in November jumped over 80% year-on-year.

### Clarification

In WiC392 we should have described PM2.5 as the smallest "category" of airborne pollution since there are particles which are smaller.

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