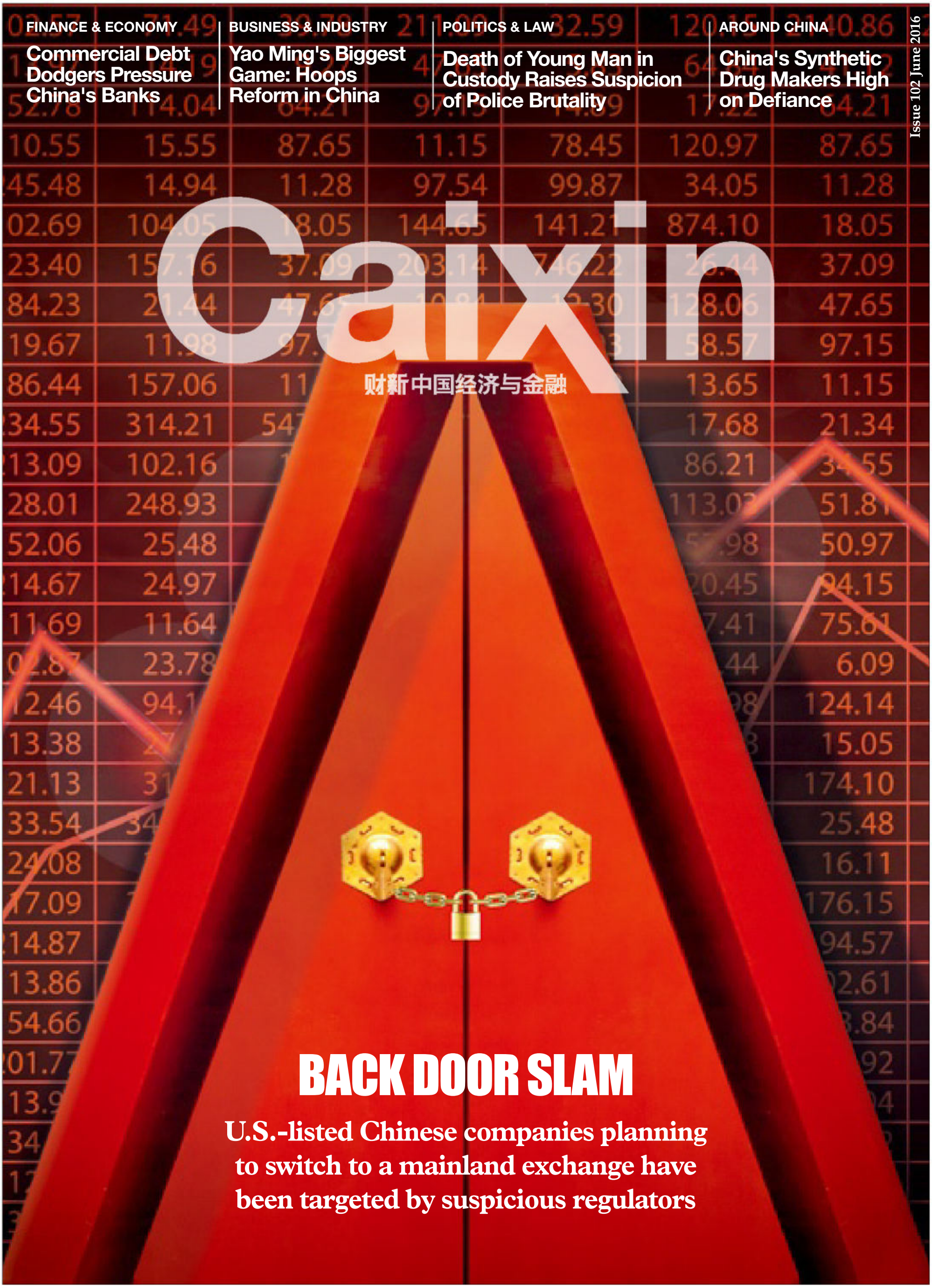

FINANCE & ECONOMY

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BUSINESS & INDUSTRY

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Death of Young Man in Custody Raises Suspicion of Police Brutality

AROUND CHINA

China's Synthetic Drug Makers High on Defiance

Issue 102 June 2016

Caixin

财新中国经济与金融

BACK DOOR SLAM

U.S.-listed Chinese companies planning to switch to a mainland exchange have been targeted by suspicious regulators

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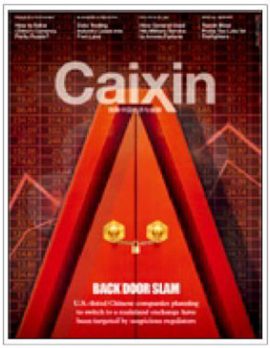


CONCEPT: ZHAO LINGJUN

Making Sense of China's Slow Growth Trajectory

An authoritative economic growth forecast has laid a foundation for adjusting to the nation's ongoing slowdown

Against the backdrop of a slumping economy, the party-run People's Daily newspaper has once again sought answers from an unnamed "authority."

A "person in authority" told the paper in an interview published May 9 that China's economy is on an "L-shaped" trajectory for recovery.

The interviewee's point was that neither a U-shaped nor a V-shaped line would appear on charts tracking the nation's economic growth rate. Instead, the chart would reflect a drastic decline followed by slow yet stable growth.

The message conveyed did not stray far from what analysts had previously agreed upon. Nevertheless, the interview generated a lot of discussion among economists over its timing and implications.

The interview, apparently aimed at dispelling market jitters over slow growth, triggered steep declines that day on the Shanghai and Shenzhen stock markets. Each bourse's composite index closed the day down by nearly 3 percent.

Equity market traders usually overreact to the Chinese economy's ups and downs. But the early May sell-off was certainly indicative of the deep shock felt by investors who read the People's Daily projection.

Investor reactions thus underscored the challenges ahead as the nation adjusts expectations and rethinks the way the economy should be managed, even as the growth rate follows the trajectory described in the newspaper over the next year or two.

In recent years, overseas analysts have offered sometimes contradictory explanations about the health of the Chinese economy. Some thought the economy would inevitably slow, and that a slow-growth economy would have a positive effect by spurring economic reform. Others tended to fuss when the economy's growth accelerated a little quickly or abruptly slowed.

A look back at recent history may help clear the air and help analysts and economists at home and abroad understand what "L-shaped" economic growth in China is all about.

Back in 1995, China's GDP was less than US$ 800 per capita. A decade later, it had risen to US$ 1,800. And last year, it was US$ 8,000.

The growth was no doubt impressive. But one day, that kind of growth will certainly reach its limit. What follows could be much more moderate growth, and perhaps a contraction.

As internationally renowned economists such as Lawrence H. Summers have pointed out, a rapidly expanding economy is likely to see its growth rate eventually retreat to mirror the long-term, global average. Many academic researchers have similarly concluded that economies not only slow after enjoying years of brisk expansion but are likely to decelerate by a wide margin.

Anyone who agrees with these conclusions should not be surprised to see that China's economic growth has slowed in recent years.

Of course, China's sheer size and impact on the global economy should raise concerns about a slowdown. Fluctuations in China can affect international trade and global finance. Therefore, it is understandable that economists have been anxiously watching China.

The nation's GDP was less than one-tenth that of the United States in 1995 but reached 60 percent at the end of 2015. If the GDP of each country were measured according to purchasing power parity, the two economies would be almost the same size.

The International Monetary Fund (IMF), in a report based on its 2015 Article IV consultations with China, predicted that the economy would slow by half a percentage point in 2016 but could actually increase by one percentage point in 2020 if the nation carries through with a pledge to further market-oriented reforms.

Thus, striking a balance between short-term aspirations for rapid growth and the long-term goal of promoting sustainability calls for heeding the message delivered by that anonymous authority interviewed by the People's Daily.

What practical steps should be taken? First, reform the economy's supply side. Dealing with the nation's excessive stockpiles of industrial products and unsold homes should be a top priority, according to the authority. Second, the interviewee urges policy makers to stimulate demand and thus help address the constraints affecting the economy's supply side.

China as well as the global community must accept the challenges associated with the nation's slow economic growth. Few expect China to prop up the economy by introducing another round of stimulus like the massive government injections witnessed after the 2008 global meltdown.

Some overseas critics, speaking out of self-interest, could wag a finger while blaming China for the global decline in commodity prices. China's slowdown might indeed help drive down the prices of iron ore and copper, according to an IMF analysis, but not crude oil. It's not fair to blame China for financial hardships in any oil-rich country, especially since other factors such as geopolitics come into play.

Resource-rich countries such as Brazil, Australia and Canada have benefited enormously from China's breakneck development and almost insatiable demand for raw materials. As the Chinese economy continues to slow, these countries must adjust.

China is also adjusting. After the slowdown began, the Ministry of Commerce tried to revive demand for China's exports but with little success. And Chinese businesses that tried to offload excess capacity by expanding overseas have found many developing nations wary of their intentions and reluctant to let them in.

Adjustments, not government stimulus, will help China trim overcapacity and manage risk.

A new phase of globalization emerged after the 2008 economic crisis. It's a phase driven by multilateral treaties such as the Trans-Pacific Partnership Agreement. Still, economic stagnation in many countries has given rise to populist movements.

China must remain committed to opening up its economy and promoting win-win cooperation. Domestic and overseas businesses look forward to a level playing field in China – an aspiration in line with the essence of the nation's campaign for a supply-side reform movement.

So an L-shape growth trajectory is nothing to fear. It poses challenges but it also offers new opportunities for China and the world. ■

CHINA IN NUMBERS

Ageing Muscle

The average age is rising for workers registered as residents of rural parts of China, including those working in their hometowns and those who have migrated for work to other parts of the country, according to the National Bureau of Statistics. This segment of the nation's population was still growing in 2015, the data showed, but the growth rate slowed. The report said the average age of a rural worker is now over 38, and that the number over age 50 has increased to nearly 18 percent. Other bureau data indicate that while worker wages are rising, many rural hukou holders lack legal employment protection as their employers do not offer contracts. The amount of back pay owed by employers to these workers increased slightly last year from 2014, the report said.

Population of rural workers from 2011-2015

Year	Rural population (millions)	% increase from previous year
2011	252.78	4.4
2012	262.61	3.9
2013	268.94	2.4
2014	273.95	1.9
2015	277.47	1.3

Monthly income in major industries

Industry	yuan	Increase from 2014 (%)
Manufacturing	2,970	4.9
Construction	3,508	6.6
Wholesale and retail	2,716	6.4
Logistics and postal service	3,553	7.7
Food and other services	2,723	6.2
Average	3,072	7.2

Rural workers employed in their hometowns and elsewhere

Growth rate (%)

Migrant workers (millions)

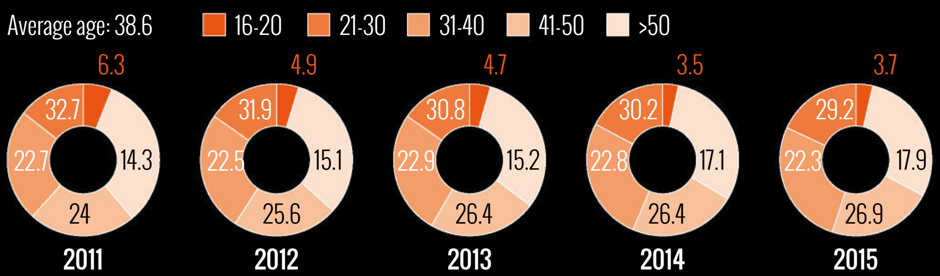
Year	Migrant workers (millions)	Growth rate (%)
2014	168.21	
2015	168.84	0.4

Rural residents working in their hometowns

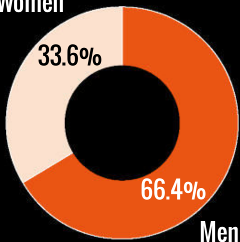
Year	Rural residents working in their hometowns	Growth rate (%)
2014	105.74	
2015	108.63	2.7

Rural worker age groups from 2011-15 (%):

Average age: 38.6



Gender ratio of rural workers



Which industries employ rural migrants? (%)

Manufacturing 31.1

Construction 21.1

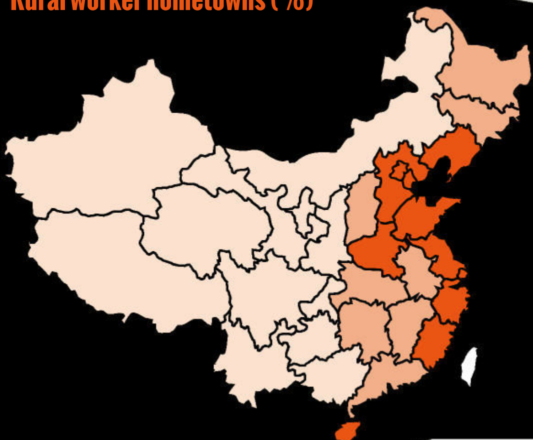
Wholesale and retail 11.9

Logistics and postal service 6.4

Other 23.7

Food and other services 5.8

Rural worker hometowns (%)



Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Hainan: **38.8**

Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan: **34.6**

Inner Mongolia, Guangxi, Chongqing, Sichuan, Guizhou, Yunan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang: **26.6**

Contract signing conditions: (%)

No contract 63.8

One-year contract or above 19.9

Contract without clear time limit 12.9

Less than one-year contract 3.4

Percentage of rural workers who were not paid on time, by industry (%)

Manufacturing: 0.8

Construction: 2.0

Wholesale and retail: 0.3

Logistics and postal service: 0.7

Food and other services: 0.3

Other: 0.3

Workers carrying rural hukous who were not paid on time in 2015 were owed an average **9,788 yuan**, up 2.9% from 2014.

Sun Wenlin (left) and Hu Mingliang kiss at their wedding in Changsha, in the central province of Hunan, on May 17, the International Day Against Homophobia. The two men sued a local civil affairs bureau that denied them the right to marry last year. A court accepted their case in January, making it the country's gay marriage rights lawsuit. A judge ruled against them in April, but the couple is appealing the verdict / Visual China

The entrance to the Jiuquan Atomic Energy Complex, popularly known as Plant 404, in the Gobi Desert. This was where the country's first military nuclear reactor was developed and its first nuclear bomb was assembled. Some facilities in the nearly abandoned site are now used to store and reprocess nuclear waste / Li Yang

A clock sculpture with its hands pointing to 2:28 p.m., when a magnitude 8 earthquake struck the southwestern province of Sichuan on May 12, 2008. The quake that killed over 87,000 people was the deadliest in the country four decades / Caixin (Chen Weixi)

A 10-year-old boy (right) and his sister, both with cerebral palsy, tied to a building, while their father and grandmother work nearby in a village in the central province of Henan. Relatives say they cannot afford treatment for the children / Visual China

An elderly woman with a robot caregiver at a nursing home in the eastern city of Hangzhou. The facility plans to use five robots to help care for its 1,300 elderly residents. One in 10 Chinese are over 65 and the country is grappling with a shortage of caregivers / Visual China

Riot police, on May 12, block the road leading to the memorial for a villager killed in a fatal police shooting. Police shot Fan Huapei, 36, after he stabbed three men to death during an attempt to demolish his home in Xuegang Village, in Henan. He had resisted arrest and ignored warnings shots, police said. Several witnesses,however, told Caixin that police did not warn Fan before pointing their guns at him / Caixin (Chen Liang)

CORPORATE DEBT

Bad Loan Bandits

Banks are trying to cope with a sharp rise in loan defaults tied to state and private companies that creatively sidestep debt obligations

By staff reporters Wu Hongyuran and Zhang Yuzhe

Bankers nationwide are rushing to call loans issued to state-owned and private companies to avoid a rising tide of debt dodging that's not only legal but often supported by the government.

Some companies in the past year have frustrated creditors by declaring bankruptcy, while companies in the steel manufacturing and coal mining industries have used asset restructuring projects to avoid debt obligations.

"Many companies are using bankruptcy and asset restructuring as measures to skip out on bank loan repayments," said a source at a bank who asked not to be named.

Bankers are struggling to cope as bad debts mount. The total value of loans in default reported by the nation's banks at the end of 2015 surged nearly 48 percent year-on-year to 1.19 trillion yuan, according to a source close to the China Banking Regulatory Commission. The overall default rate for China's banks rose about a half-percentage point during that period to 1.8 percent.

A poster child for the toxic loan trend is state-owned China Railway Materials Co. (CRM), the nation's largest supplier of iron rail tracks and other railroad building wares. On April 1, sources told Caixin, the company owed creditors 56 billion yuan. Its debt included 18 billion yuan in bank loans and 16.8 billion yuan worth of bonds.

A few days later, citing trouble repaying creditors, the company intervened in the bond market by suspending trades on all of its outstanding bonds.

Market concerns over the CRM suspension eased May 17 when the company paid off holders of bonds worth 1 billion yuan. But trading did not immediately resume for the rest of the bonds, and the company issued a warning through Shanghai Clearing House about possible bond defaults.

CRM's crisis was the subject of an early April meeting between officials from 19 banks and the central government's State-owned Assets Supervision and Administration Commission (SASAC), which oversees CRM and other major state companies.

Sources close to the company said bankers raised objections over an SASAC debt-equity swap proposal that called for banks to receive stakes in CRM in exchange for forgiving half of the company's loans.

SASAC later announced that CRM would be taken over and its debt restructured by China Chengtong Holdings Group Ltd., a central government-backed asset management and investment company.

Yet the government decision may have further aggravated bankers since, according to a banking industry expert who declined to be identified, in China banks typically receive less than 20 percent of what's owed whenever a company launches a debt restructuring.

Blame the Bankers

Some financial experts argue that China's bankers have no one to blame but themselves for the current toxic loan predicament. Companies now in default or dodging obligations include former darlings of bank loan officers who enthusiastically extended credit on the assumption that the Chinese government would never let state-owned borrowers default.

According to end-of-the-year 2015 government data leaked to Caixin, 106 companies backed by the central government had outstanding debt worth 11.3 trillion yuan on combined credit lines worth 32 trillion yuan. The debt included 6.3 trillion yuan worth of bank loans and 1.3 trillion yuan in corporate bonds held by banks.

But bankers who were approached by companies for credit lines are now busily calling loans from their borrowers, said a branch head of a joint stock bank.

Banks have been blacklisting borrowers who maliciously skirt debt obligations ever since the China Banking Association (CBA) wrote guidelines for a tracking system in 2006. The guidelines were updated in 2013. The association's chief legal adviser, Pu Xiangrui, told Caixin that CBA is now working to tighten the guidelines and extend the rules beyond companies to include other delinquent borrowers such as loan guarantors.

In step with CBA's actions, government agencies April 21 including the People's Bank of China, China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission jointly pledged to create a mechanism for identifying and punishing companies that avoid debt paybacks.

Loan officers factored into their credit decisions an assumption that struggling companies could count on taxpayer bailouts to stay afloat

Pu said without a law on the books and other legal support, it's hard for a financial institution to judge whether a delinquent borrower's actions were intentionally malicious. He called for stricter controls on borrowers with bad credit and persuading banks to toughen and more carefully adhere to sound lending practices.

Nevertheless, bank sources told Caixin that for many years bankers put too much faith in state-owned enterprises (SOEs) as well as the central and local government agencies such as SASAC that ultimately control them. Because of this misplaced trust, many bankers neither properly supervised borrowers nor kept current on their ability to repay debt.

Pu, said banks should accept losses as their responsibility and as a price to pay for loose lending and lax borrower oversight.

One bank executive acknowledged that any bank that "carefully handles post-loan management can detect problems." Repayment problems have intensified because bank loan management practices are generally "shabby, and banks are always unprepared."

"Banks walked into" the bad loan situation "by themselves" and were not "forced," said another bank source.

Moreover, loan officers factored into their credit decisions a widely held assumption that struggling companies could count on taxpayer bailouts to stay afloat since "governments want to maintain social stability, regardless of the cost," said a Jiangsu Province banker who asked not to be named.

Government Meddling

In fact, it seems the banker's assumption was only partially correct. Governments over the past year have helped companies cope with financial burdens – and thus acted in ways designed to maintain social stability. But their decisions have not always favored bankers and other creditors.

For example, bankers told Caixin, SASAC has encouraged state-owned companies including CRM to restructure debt and thus avoid repaying banks.

A source close to government regulators said SOEs have actually worked harder than privately owned companies to skirt debt responsibilities. Some state companies have transferred assets to subsidiaries to keep them out of the hands of creditors, the source said, while others, as quickly as possible, spun off quality assets before declaring bankruptcy.

"Unlike private entrepreneurs who fund companies with their own money, SOE executives are less hesitant about letting a company go bankrupt," said a brokerage source who chose to remain anonymous.

Local governments have been blamed for helping locally controlled SOEs avoid debt payments. They've also allegedly intervened when banks tried to dispose of bad loans.

In Jiangsu Province, sources said, a city government last year ordered banks to sell 10 billion yuan worth of bad loans to government-backed asset management firms for only 200 million yuan. The banks complied.

Local governments have also intervened in legal disputes between banks and financially troubled companies by ordering courts to postpone or even drop lawsuits filed by banks against delinquent borrowers "in order to protect local companies," said a bank source.

Last August, sources said, the government in central-eastern Anhui Province was the force behind a bankruptcy and restructuring for Huaikuang Xiandai Logistics Co., a subsidiary of Shanghai-listed Anhui Wanjiang Logistics Group, after Xiandai defaulted on more than 80 percent of its 15 billion yuan in overdue loans.

The money was owed to about a dozen banks including China Minsheng Bank and Industrial Bank of China. None of the banks supported the provincial government plan, but saw it as a way for the company to wiggle out of debt obligations.

"There were no discussions with creditors," said a source at one of Xiandai's creditor banks. "The restructuring plan was the government's decision."

Despite banker objections, government officials pushed until banks eventually wrote off 60 percent of the company's debt.

Privately owned companies are also riding the tide of debt dodging. In eastern Zhejiang Province, a hotbed for private entrepreneurship, state media last October reported that more than 700 companies had found ways to avoid repaying 11 billion yuan worth of debt.

Some companies dug out of a hole through legal loopholes or through "mutual guarantee" arrangements widely used for loan backing in Zhejiang.

A Jiangsu bank executive said some strained borrowers have gone so far as to turn themselves into police and confess to crimes such as loan application fraud, thus risking a possible prison term but forcing termination of all loans and loan guarantees, leaving banks holding the bag.

In another slippery maneuver, bank sources said, some company owners have tried to transfer personal assets to friends, relatives or acquaintances so that these would not be seized by creditors in a default. These owners "are openly dodging debt obligations," said a source.

Nevertheless, bankers say they're more concerned about default risks tied to SOEs than private firms. They point to past government intervention as a reason for concern in the face of China's ongoing economic slowdown.

A standout intervention dates to March 2013, when SASAC ordered Chengtong – the firm now controlling

CMA – to take over and restructure the debt-ridden paper mill operator MCC Paper Group after the company said it could not repay 14.5 billion yuan owed to 29 banks.

The company "had more than 10 billion yuan in unpaid loans," said a source at a creditor bank. "With a simple order, SASAC transferred it."

A committee representing MCC's creditor banks complained to SASC, the source said, demanding repayments. The banks then blacklisted Chengtong, claiming the firm had dodged debt, and banned it from all credit services in the city of Beijing.

Negotiations ensued, and late last year the banks and Chengtong agreed to a restructuring plan for MCC. Chengtong's name was removed from the blacklist. ■

INSURANCE

Crossing the Line

A strong investment push climate that marked the rise of China's third-largest life insurer, Funde Sino Life, may be its undoing

By staff reporters Ding Feng, Yu Ning, Wang Jing and Cui Xiankang

Short-term, investment-linked insurance policies and high-stakes stock trades helped Funde Sino Life Co. Ltd. rocket from almost nowhere a decade ago to rank as China's No. 3 life insurer today.

But the recent detention of company founder and businessman Zhang Jun has raised doubts about the Shenzhen-based firm's business practices and growth trajectory.

Moreover, Zhang's detention was announced in February while some financial analysts were warning of risks tied to the non-traditional yet lucrative short-term insurance policy business. As the economy continues a slowdown now in its sixth year, these analysts argue, short-term insurance policy-related investing is ratcheting up risks for insurers and their clients.

Funde alone has a lot to lose. Since Zhang bought the former Sino Life Insurance Co. Ltd. in 2006 and later renamed it Funde, the company's reported assets have surged more than 40-fold to 400 billion yuan in 2015. Zhang directly or indirectly controls more than 90 percent of Funde, according to company documents.

Funde reported premiums from its estimated 8 million policyholders more than doubled between 2014 and last year to 160 billion yuan, ranking the company behind only state-owned China Life Insurance Co. and Ping An Life Insurance Co. in industry rankings.

An apparent secret of Funde's success stems from its investments in the stock market, financial sector, property developers, energy and chemical companies. Its portfolio has been growing since 2012, when the China Insurance Regulatory Commission (CIRC) started loosening restrictions on insurer investment options.

Funde now controls stakes equal to more than 20 percent in Shanghai Stock Exchange-listed Shanghai Pudong Development Bank (SPDB) and the Shanghai-listed property developer Gemdale Corp. Its shares in each of several other publicly listed companies exceed 5 percent.

The company is also a leader in the relatively young insurance sector niche through which insurers offer short-term life insurance policies that mirror wealth management plans and pay dividends to policyholders after the policies mature in as few as three months.

CIRC said about 81 billion yuan of the 160 billion yuan that Funde reported in paid insurance premiums last year were generated through short-term insurance policies.

And Funde is one of dozens of private insurers that's gotten into the short-term policy business since CIRC made investing easier. As much as 640 billion yuan worth of premiums may be targeting this niche through a variety of insurers last year, many of them relative newcomers to the industry.

One insurance industry expert who asked not to be named said some insurers have used premiums from short-term policy holders to invest in risky assets. Zhang and Funde may have been among them.

Growing Portfolio

Zhang, 53, was detained February 5. According to a Funde statement released February 22, the insurance executive has been "helping relevant Chinese authorities with an investigation." No details of the probe were provided.

The statement also called Zhang's detention "a personal matter."

Another source said Zhang's case is linked to Liu Zhigeng, who was arrested by the Communist Party's Central Commission for Discipline Inspection on February 4 for allegedly protecting the sex industry while serving as party secretary in the Guangdong Province city of Dongguan between 2006 and 2011.

Zhang was detained because "he spent millions of yuan to buy property for Liu in Hong Kong in the 1990s," said the source, who declined to be identified. The two men also apparently worked together on property deals while Liu served as a party official in Shenzhen before he was transferred to Dongguan.

Before the insurance company takeover, Zhang was in the Shenzhen real estate business.

The Funde statement said the insurance company itself "is not being investigated nor being asked to assist an investigation." But since then, the company's status with authorities has changed.

Sources close to CIRC said that commission officials decided April 19 to send a team of auditors and accountants to Funde's office to review the firm's books.

A source close to the company said Funde had raised CIRC eyebrows after failing to file a 2015 financial report by an April 15 deadline. A power struggle among managers that broke out after Zhang's departure prevented executives from filing on time, the source said.

Funde's possible financial downturn may be linked to the 2015 stock market rout

Financially speaking, Funde and Zhang are practically joined at the hip. Company business license documents show that Zhang and his affiliates such as his wife Tao Meiying, business partners Zhang Fengyuan and Luo Guidu control six of Funde's largest shareholders including Shenzhen Funde Financial Investment Holding, Shenzhen Houde Financial Investment Holding and Shenzhen Guomin Investment Development Co. The six companies hold more than 92 percent stake in Funde.

In its financial statement for the fourth quarter 2015, Funde reported 38.4 billion yuan on hand to cover policy claims. The company, which has about 1,000 offices and 130,000 employees nationwide, forecast a worsening financial picture for the first quarter 2016.

Funde's possible financial downturn may be linked to the 2015 stock market rout. Some analysts have speculated that the company, which has been aggressively buying shares since 2013, may have violated a CIRC rule that says an insurance company can invest no more than 30 percent of its assets in the stock market.

Last year, according to documents filed with the Shanghai exchange, Funde bought a one-fifth stake in SPDB for 60.5 billion yuan.

In addition to the bank, Funde company documents show it holds shares equal to more than 20 percent in Gemdale, steelmaker Shougang Fushan Resources Group and Kaisa Group Holdings, a property developer. Other firms in the insurer's portfolio include eight property developers, three energy companies and 12 other firms.

In 2010, Funde's predecessor, Sino Life, had crossed a regulatory line by letting Zhang control more than 20 percent of the company. But the violation apparently went unchecked. In 2013, CIRC eased the requirements but still set a 51 percent cap for a single investor's shareholding in an insurance company.

The previous year, CIRC picked Sino Life for a pilot project to test whether insurers could broaden their investments to include stakes in unlisted companies and trust products. The test was a success and the regulator expanded the option to include all Chinese insurance companies in February 2014.

Big Favors

Businessman Zhang started building a fortune in the early 1990s by getting involved in the booming electronics component production industry in Shenzhen. He expanded into property development in 1996 and built apartment buildings in the southern city's Longgang District, where Liu was then serving as party chief.

A bank executive in Shenzhen who asked not to be named said it was widely believed inside the Shenzhen business community that Zhang received land-deal favors from Liu.

Zhang did Shenzhen a big favor in 2008 by moving Sino Life's headquarters to the city from Shanghai. But it was a sweet deal for the insurance company, too, since the Shenzhen government at the time was offering subsidies and tax incentives to insurance companies.

The bank executive said city officials "offered Sino Life a plot of land at a very low price."

In a way, though, the move to Shenzhen was a homecoming for Sino Life, which was started in 2002 by eight investors including building materials supplier Dalian Shide Group and steelmaker Beijing Shougang Co., and was later sold to the Guangdong government-backed Rising Asset Management Co. and a private company called Ruide Industrial Co. Three companies controlled by Zhang bought a majority 22.5 percent stake starting in 2006.

After the company relocated, Zhang was named chairman and the insurance company started an era of aggressive growth. Between 2009 and 2012, assets grew 10-fold to 10 billion yuan.

Regulators approved Sino Life requests to open 11 branch offices in 2010 and 2011. It also got a green light to start an asset management company and a property insurance unit.

In March 2013, according to company documents obtained by Caixin, Sino Life paid one of Zhang's real estate companies 600 million yuan for an apartment complex and hired a Zhang-connected firm called Guomin Investment to manage it. A few months later, Sino Life bought a trust product issued by Chongqing International Trust Co. to fund a property development project owned by a Zhang company.

Between 2013 and 2014, documents obtained by Caixin show, Sino Life and its successor Funde invested heavily in the chemical industry. After launching an 8 billion yuan fund, 6 billion yuan was funneled into an olefin production project in Zhejiang Province.

Neither Sino Life nor Funde have provided details about the insurer's chemical sector investments. But a source close to the company said said that "all of the big (chemical) projects are controlled by Zhang. Other (insurance company) executives knew very little." ■

COMMODITIES

Hitting the Brakes

Government seeks to cool prices for contracts in commodities from steel to eggs following bourse crash last year and doubt in bond market

By staff reporters Liu Caiping and Cao Wenjiao

Officials governing the futures markets are trying to cool a speculative fervor that has pushed up prices and trading volumes for raw materials and agricultural products in recent months.

Prices for futures contracts for items including coking coal, steel and even eggs have risen since the beginning of the year. Between January 4 and April 26, the price of coking coal contracts increased by two-thirds, data from futures exchanges show, and the number of contracts traded rose from 106,000 to 2.42 million.

Price indexes of steel rebar, the rods used to reinforce concrete, and iron ore went up by over 40 percent during the same period.

An increase in speculation in futures markets in China "poses multiple dangers to global commodity pricing stability," a recent report from Citigroup said.

The froth in the commodities markets is being caused by retail investors flocking into it after the stock market rout last summer, experts said, and because the bond market has been rattled by an increase in the risk of defaults.

"In the past, fewer than 20 investors opened futures accounts every month, but now it has more than doubled to about 50 per month," the manager of a futures brokerage said.

Most of the newcomers are retail investors, the manager said.

Investors hunting for short-term gains have pumped up commodity prices quickly. The volume of iron ore traded on the Dalian exchange rose more than 400 percent from January to late April compared to the same period in 2015, a report by the investment bank Goldman Sachs said.

On some days, trading volume of iron ore futures exceeded the total amount of iron ore that China imported in 2015, the investment bank said.

On March 10, 10.5 million iron contracts were traded, which meant the quantity of the metal traded on paper on that day exceeded 1 billion tons, more than the imports for all of last year. Daily volumes for iron futures in 2015 ranged from 150,000 to 5 million contracts, according to Reuters.

"The problem in the futures market is that traders looking for quick gains have outnumbered producers or miners who use it to hedge long-term risks caused by price fluctuations," said a source close to the China Securities Regulatory Commission. "Too much speculation could turn the market in to a gambling den."

Speculation Fervor

An investor held onto an iron ore contract or a steel rebar future traded on the Shanghai exchange for just four hours on average, said Wu Zhili, an analyst at Shenhua Futures Brokerage Co. Ltd., while investors in the New York Mercantile Exchange held contracts for 40 to 70 hours on average.

Such short-term deals accounted for almost 70 percent of transactions, said Wu.

And there are signs the system is having trouble handling all the action. The Shanghai Futures Exchange went offline for a few minutes when trading began on April 22 because its computers could not handle the transaction volume, the exchange said.

The search for quick gains gained steam after futures brokerages got into the wealth management business. As of the end of February, the size of wealth management funds managed by futures companies reached 114 billion yuan, seven times the figure at the beginning of 2015, said Wu Xiaoyong, an official from the securities regulator. Futures companies earned 131 million yuan from their wealth management businesses last year.

Banks looking for better yields are pouring money from their wealth management products into commodities, a bank executive said.

Investment fund managers are also eyeing the futures market. Four mutual funds are waiting for permission from the regulator to invest in copper, non-ferrous metals and agricultural goods contracts, the CSRC said.

Almost all mutual funds in the country invest in stock or bond markets, said Gao Shang, head of research at Haitong Futures Co. Ltd. The only one trading in futures was set up in August by UBS SDIC, a joint venture between the Swiss financial services company UBS AG and SDIC Trust Co. Ltd. in Shanghai. The 347 million yuan fund invests in silver contracts, the company said, and the fund only saw a 0.006 percent rise in value over the past seven months.

Cooling Measures

Exchanges in Dalian, Shanghai and the central city of Zhengzhou moved quickly to curb excessive speculation, and prices have begun to moderate. Dalian increased transactions fees on coking coal contracts 11 times to 0.072 percent from April 22 to April 27 "to restrain excessive, short-term speculative transactions … and to maintain market stability," the exchange said.

The margin trading requirement for iron ore contracts, akin to a deposit investors must pay, was raised to 8 percent from 7 percent. Previously, the exchange pushed up transaction costs for items including polyethylene and soybeans.

The Shanghai exchange increased transactions fees for steel rebar to 0.01 percent from 0.006 percent on April 25, and also cut night trading hours for contracts of rebar, hot-rolled coil steel and petroleum pitch by two hours from four hours, starting from May 3.

These interventions have helped keep speculators at bay. On April 27, the prices of coking coal and iron ore fell by more than 5 percent on the exchange in Dalian. The total volume of contracts traded dropped to 1.9 million on April 29 from 10.5 million on March 10.

Several analysts said that regulators may take tougher steps to prevent a bubble. Others warned exchanges should be prudent when intervening to avoid the kind of turmoil caused when a circuit breaker mechanism was introduced to the stock market in January that would halt trading if the bourse fell by certain levels. It aimed to limit stock market losses, but instead triggered a wave of panic selling.

Policymakers "should learn from the stock market debacle," said Gao, and manage market liquidity levels and avoid sudden policy changes that may trigger a meltdown.

Others said there was no reason for alarm. One cannot say the market is overheated by only looking at an increase in transaction volumes, said Zhu Shiwei, a metals analyst of Yongan Futures Broker Co. Ltd.

The price gap between forward contracts and the spot market should also be considered. If the contract price was not significantly above the spot price, a rise in transaction volumes may be a sign that the commodities market is recovering after a slump in recent years, Zhu said. ■

RENEWABLE ENERGY

Unhealthy Addiction

Provincial policies to support coal-fired plants are stunting renewables development and the country's push to wean itself off fossil fuels, experts say

By staff reporter Zhang Yan

Local governments are undermining the central government's efforts to develop greener sources of electricity by squeezing production quotas for renewables and slapping extra levies on wind companies to prop up ailing coal-fired power plants in their regions.

Governments in northwestern Gansu Province and the Xinjiang region, and in the southwestern province of Yunnan have subsidized coal-burning plants and intervened wind power company productions, forcing some wind farms to take almost 60 percent of their turbines offline, the Chinese Wind Energy Association (CWEA), an industry body, said.

Wind power capacity has been growing, but so has the amount of wasted wind energy, data from the National Energy Administration (NEA) show. About 26 percent of turbines in the country didn't produce any power in the first three months of 2016, statistics showed. In 2015, about 15 percent of the installed wind power generation capacity sat idle, the data showed, and it was the lowest level of utilization since 2012. Despite this, in 2015, new turbines that can produce 33 million kilowatts of electricity per year were installed, pushing up the country's total wind power generation capacity to 129 million kilowatts per year.

China has the largest wind energy production capacity in the world, the NEA data showed.

In previous years, a glut of wind turbines had pushed some to sit idle. The lack of a smart grid that can deal with fluctuating levels of output from renewable sources has also resulted in wasted wind, hydro and solar energy.

Local governments and grid companies assign annual power production quotas to different types of power companies based on forecasts for demand and stability of supplies. Power producers are seeing weakening demand due to the economic slowdown.

Since 2015, the problem of idle wind turbines has worsened partly because local governments assign coal plants enough production targets to survive at the expense of ones using renewable sources, said Qin Haiyan, secretary general of the CWEA.

Coal plants have long been the easiest, fastest way for some provinces to stimulate local economic growth and create jobs.

More than 12 percent of solar power generation facilities nationwide were forced offline in 2015. Solar plants in Gansu were the worst affected, with almost one-third of the capacity left unused, followed by Xinjiang with one-quarter of facilities unplugged, data from the NEA showed.

Mixed-up Priorities

Local government support for coal over renewables raises questions about whether the country is weaning itself from its addiction to the cheap but dirty source of energy as quickly as it can, experts said.

"Some local governments have adopted policies that interrupt the development of renewable energy sources," said Qin.

In December, authorities in Xinjiang squeezed production quotas of wind, solar and hydro power producers, levied an extra fee, and used the revenue to subsidize coal-fired power plants, the CWEA said. The Gansu government cut the price paid by the state-run operator of the local grid when buying 1 watt of electricity from a wind power generator by 40 to 75 percent. In November, authorities in Yunnan tried to slap an extra surcharge on wind and hydro power producers and use the revenue to subsidize underperforming coal-fired plants.

The plan, however, was suspended due to strong opposition from renewable energy firms, Qin said, but these policies meant wind farms that produced more energy lost more money.

Wind companies have lost more than 18 billion yuan in revenue due to production cuts in 2015, the CWEA said. Xinjiang Goldwind Science & Technology Co. Ltd., the world's largest wind energy producer, suffered a 500 million yuan loss in 2015 because almost two-fifths of its turbines were forced offline, state media reported.

Producers in Gansu were the worst affected and had to let 40 percent of their turbines sit idle last year, almost four times the capacity wasted in 2014, the CWEA said. Shenzhen-listed Ningxia Yingxing Energy Co., which has most of its wind farms in Gansu, said in a filing to the stock exchange that it lost 120 million yuan in 2015 due to lower energy demand and production quotas.

On March 31, the CWEA accused the governments of Gansu, Xinjiang and Yunnan of adopting policies that violated the country's Renewable Energy Law.

The association has lodged complaints with government departments in these provinces, demanding more transparency of policies governing the wind power sector and asking to lift production curbs.

The Renewable Energy Law, came into effect in 2005 to support renewable energy development, requires local governments and state-run power grid operators to buy all electricity produced by a firm using renewable sources that fall within the government quota, said Yang Fuqiang, an energy and climate change expert at the Natural Resources Defense Council, an environmental non-governmental organization.

Squeezing production quotas and slapping extra charges on producers of renewables to cross-subsidize coal plants is a violation of the spirit of the law, the CWEA said.

Coal-fired plants have been struggling in recent years. In Yunnan, only one in 10 facilities using coal operated at full capacity in 2015, said Wang Zhixuan, head of China Electricity Council, a government-backed power industry association.

The country's total electricity consumption rose 0.5 percent in 2015 to 5.6 trillion kWh, official data show. The figure in 2014 was about 4 percent.

Despite the drop in demand, local authorities approved 155 new coal-fired power plants in 2015, three times the number approved in 2014, said CoalSwarm, an energy industry research institution.

The increase in permit approvals followed the enactment of a policy in March that allows provincial environmental officials rather than the central Ministry of Environmental Protection to approve projects to cut red tape.

That system has created what appears to be a disconnect between achieving provincial economic growth targets and the country's overall energy requirements. The nation is already plagued by a glut of coal power plants. If all the approved plants come online, it would lead to excess capacity of over 200 gigawatts per year by 2020, said Yuan Jiahai, a professor at North China Electric Power University in Beijing, and it is a waste of 700 billion yuan worth of investment.

Rising Tensions

Producers of renewables say the increase in the number of coal plants hinders other energy sources from selling electricity on the grid and attracting investment.

Although coal is the cheapest source of energy in the country, the price gap between the fossil fuel and renewables is narrowing. It cost 0.3 yuan to generate one kWh using coal in 2014, compared to 0.6 yuan per kWh with wind and 0.9 yuan using solar power, said Meng Xiangan, vice chairman of the China Renewable Energy Society, a research institution in Beijing.

But if a pollution tax or a carbon tax is imposed on producers that use fossil fuels, the cost of burning coal for electricity will rise significantly, said Meng.

The World Wildlife Fund, an environmental NGO, predicted that by 2020 coal power generation costs in the country will rise to 0.85 yuan per kWh, while that for wind and solar energy will reduce to 0.51 yuan and 0.62 yuan per kWh as technology improves.

As part of the Paris Agreement on climate change signed on April 22, China pledged that by 2020, 15 percent of all its energy will come from sources other than fossil fuels. A long-term goal set by the National Development and Reform Commission, the country's top economic planner, in 2014 is raising the amount of energy produced from non-fossil fuel sources to 91 percent by 2050.

In March, the commission and NEA issued a series of guidelines to assist the development of renewables, including specific growth targets for each region and requirements for local governments to increase renewable energy consumption.

If existing national-level policies are implemented, renewable energy companies will be able to make enough money to support their growth, said Meng.

But if local governments' appetite for coal is not reduced, plans to limit the country's reliance on dirty sources of energy and develop greener alternatives will fail, said Yuan. ■

Why The Latest Infrastructure Investment Drive Is Not Another Stimulus

Zhu Haibin is chief China economist of JPMorgan Chase & Co.

A recent government plan to invest 4.7 trillion yuan in over 300 infrastructure projects from 2016 to 2018 received wide attention and raised questions about whether this was another massive stimulus similar to the one rolled out in 2008 in the aftermath of the global financial crisis.

Is that the case? The short answer is no.

The first thing that needs to be considered is how many of these projects are new. The announcement made by the Ministry of Transport and the National Development and Reform Commission, the country's top economic planner, was not clear on this issue. If past experience is any reference, some of the projects should have been included in previous public investment plans, while the others are new.

However, this may not be the right way to analyze the issue. The question we should ask is whether this investment plan is already included in current economic policies or is it an addition to them.

My research team and I think the projects are part of the 13th Five-Year Plan published by the government in March, where investment forecasts for railway and highway projects fell short of the amount of actual investment in these sectors compared to the previous economic blueprint for the 2010 to 2015 period. However, money allocated to construct new airports and urban transit systems are expected to increase.

We think the recent announcement fleshed out ways to achieve the goals set in the government's latest economic agenda, and there will be other investment plans on fields such as environmental protection, maritime engineering and new urbanization projects that will follow. Local governments, too, will publish their own investment targets in accord with the requirements of the national plan.

Stepping up investment does not

necessarily conflict with the idea of supply-side reform, which the central government has been promoting. Reforming does not mean investments should be curtailed; it means they must be made more efficiently.

The country needs to invest to achieve sustainable development, to push forward its urbanization drive and to ensure financial stability. But as the government trims excess capacity, less investment will flow in to manufacturing and inventories of real estate developers will remain high. It is not surprising that authorities will want to offset some of the impact from this by offering favorable conditions for infrastructure investments.

The scope of what qualifies for an infrastructure project has been broadened over the past few years to include not only building highways and railways, ports and airports but also constructing urban transit systems, water conservation facilities, public utilities and other environmental protection projects.

The latest 4.7 trillion yuan plan may seem bigger than the 4 trillion yuan stimulus package offered in 2008. But it is not.

China's GDP in 2015 was 67.7 trillion and the country's fixed-asset investment was valued at 55 trillion yuan. That makes the 4.7 trillion yuan investment equivalent to 6.9 percent of last year's GDP and 8.5 percent of the fixed-asset investment figure for 2015, and the investment is spread across three years. In comparison, the 4 trillion yuan stimulus amounted to 14.9 percent of the country's GDP and 33.8 percent of the fixed-asset investment in 2007. Also, the total amount of infrastructure investment in 2007 was 2.28 trillion yuan, compared to 10.95 trillion yuan in 2015.

Moreover, the previous stimulus plan injected more money into the economy than its name suggested. "As of November 25, 24 of the 33 provinces and regions had released investment plans for the next two to five years totaling 18 trillion yuan," a media report from 2008 said, and "Yunnan Province alone announced a five-year investment plan worth 3 trillion yuan."

When the government started pumping money into the economy in 2008, lending from banks and other channels also increased. The month-on-month growth rate of Total Social Financing, a liquidity measurement tool, increased from 20 percent in September, 2008 to 34 percent in December, 2009. Meanwhile, local governments' debt also rose.

In retrospect, the lack of checks and balances on how the stimulus was implemented rather than the massive amount invested should be blamed as the main culprit of many of our current problems including excess production capacity in many industries.

To sum up, we believe the planned 4.7 trillion yuan investment in infrastructure is an attempt to lay out the 13th Five-Year Plan in greater detail. It will reinforce other measures taken by the government to stabilize growth, but it is in no way a new stimulus package like the old one.

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Yao Ming's Biggest Game

Owners of basketball teams like the former NBA star are pressuring the government to make market-oriented changes to pro sports

By staff reporters Li Huiling and Huang Kaixi

Retired basketball superstar and Shanghai Sharks team owner Yao Ming is finding efforts to reform China's professional sports environment a lot tougher than a slam dunk.

The former Houston Rockets center, who hung up his high tops in 2011, is trying to reshape the state-controlled China Basketball Association (CBA), which runs a 20-team league with a commercial value estimated at just 3 percent that of the NBA.

Yao wants a more market-oriented, NBA-style league backed by private team owners rather than the government. And sharing his opinion is the cabinet, the State Council, which in 2014 said market forces should play a larger role in CBA affairs.

In January, it looked like Yao had scored when the General Administration of Sports (GAS) – which oversees all athletics activities in the country including professional team sports – ordered the CBA to work alongside team owners to form a business operations joint venture.

The venture, which was initially expected to launch this year, would take over all business, development, game and marketing operations now handled by the CBA's government-run Market Development Center. Its main goal would be to boost the CBA's commercial value.

Unfortunately for Yao, though, the decision to form the joint venture may have undermined a reform plan he helped hammer out just two days earlier.

Yao and the owners of 17 other teams had drafted a plan challenging the CBA's leadership by forming the new China Professional Basketball Club United Inc. (BCU) and named Yao its CEO. The 18 team owners hold equal stakes in the club, which was licensed as a business with 45 million yuan in registered capital.

Team owners hoped to use the club as a springboard for gaining more influence over what are now CBA-controlled business operations and game management. They also apparently had an eye on next year's expiration of a 2005 media rights, broadcasting and business development contract between the league and the Chinese subsidiary of the Swedish sports marketing company Infront Sports & Media.

BCU board member Yuan Chao, deputy general manager of the Beijing Ducks basketball team, said the team owners want to "take over CBA's marketing role" since "sooner or later, the CBA will have to hand over its business operations power."

But the sports administration's decision threw a wrench in the Yao-led plan for more team-owner clout. And shortly after the decision for a joint venture was announced, CBA officials added a painful twist by declaring they would control 30 percent of the new venture, and that each of the league's team owners would hold just 3.5 percent.

Clashing Interests

Yao has not thrown in the towel. In the course of three negotiating sessions with the director of the CBA league office, Zhang Xiong, and other league officials in April, he proposed giving the BCU a 63 percent stake in the new joint venture as the sole representative of 18 teams.

CBA officials shot down Yao's plan, though, arguing the government must retain control over the basketball league's business operations.

CBA officials offered two counter-proposals on April 27. They suggested granting the new company the right to oversee business operations and game organization. The second offer called for dividing these tasks between two new companies.

BCU negotiators rejected the CBA's proposals on grounds that neither would give team owners a large enough role in the pro basketball business.

Yao called the CBA plan unacceptable. "It's like repackaging our current system as a private company," he lamented.

As of early May, no new talks had been scheduled.

Yao told Caixin that in the spirit of a nationwide campaign to introduce market reforms, the CBA should not control the largest stake in the planned joint venture. Instead, he said, the system should change now, while the CBA and Infront are renegotiating the media contract that expires in March 2017.

"If we miss this chance, it will be difficult for us to get another one," Yao said.

Several team managers said they are displeased with a lack of financial transparency linked to the CBA-Infront contract. Yan Xiaoming, a

CBA player salaries reflect the government's and the public's general indifference toward domestic pro basketball

former deputy general manager of the CBA's Liaoning Flying Leopards said the contract lets Infront pocket nearly 500 million yuan a year, or as much as 70 percent of all revenue collected by CBA teams. The CBA, through its revenue redistribution system, hands each team only 13 million yuan a year toward costs including player salaries, Yan said.

Sources who asked not to be identified said the CBA has gotten more than 100 million yuan in each of the past three years through its contract with Infront.

Under the current financing system, team owners function as middlemen by funneling ticket revenues into the league's coffers. The league's management office, after paying Infront and taking a cut, redistributes the funds to teams. The owners have little room to plot their own business strategies.

There is a huge gap between the amount the CBA redistributes to teams and annual team expenditures. Yan estimated each team's costs exceed 40 million yuan a year – three times what they get from the league. The difference is often covered by team owners, who raise money mainly by selling sponsorships.

Ma Guoli, a former chairman of Infront's China division, said that under the contract with the CBA, Infront is not obligated to publish its financials or share information with team owners. He acknowledged that company revenues have been climbing in recent years, but said the amount the firm received was justified in light of Infront's investments in the contract's early years.

CBA Critics

Officials who run the 22-year-old CBA and the pro basketball supervision system have been criticized for a rigid management style. Critics say their approach prevents the few hundred games played each season from reaching their potential for popularity and severely limits team revenues, which in turn hurts team owners and players.

Many complain that the CBA and sports administration are mainly interested in promoting athletes on the global stage. It is their job to find the best players and sporting resources for national teams that compete in international events such as the Olympics, said a source close to the CBA who declined to be named. Issues related to pro sports for Chinese fans are far less important.

CBA player salaries reflect the government's as well as the public's general indifference toward domestic pro basketball in China, where the hugely popular NBA games are regularly broadcast on state-run television. According to domestic media, players make about 500,000 yuan a year – far less than the US$ 10 million that the Rockets paid Yao annually from 2002 to 2010.

A 2015 report by the Chinese Academy of Social Sciences noted that more than 1,200 games are played during a typical NBA season, compared with only 400 for the CBA. Moreover, the NBA's commercial value is more than 30 times that of the CBA.

Efforts to boost CBA teams by letting owners run proper business operations can be traced to 1998, when seven teams tried to form a BCU-like club beyond the CBA's reach. CBA officials, however, blocked the effort.

In 2004, a plan to reform CBA league operations within 10 years was approved by the association's then director Li Yuanwei. The plan died when Li retired in 2009, but was revived in spirit with the State Council's reform call in 2014 and sports officials' decision to implement the joint venture system.

The owners of two teams are apparently happy with the current arrangement. Their contentment prompted the owners of the Zhejiang Golden Bulls and Shanxi Brave Dragons to decline Yao's invitation to join the BCU.

Fang Jun, the Zhejiang team's general manager, said he doubts the BCU can succeed as a business. Moreover, he fears small teams such as his would be at a disadvantage in a club with the Sharks and other big-city powerhouses.

Fang is also worried that the government might lose money if pro basketball business operations were transferred to the BCU.

Some pro sports industry watchers think other team owners might switch to Fang's side after abandoning Yao's initiative.

One industry expert who asked not to be named said that some BCU members may bail out if club-CBA relations worsen. "Everyone wants reform," said a BCU member, "but no one wants to confront the CBA."

The former Infront executive Ma cannot imagine a pro basketball league in China that is not controlled by the CBA.

"The NBA has been established in a fully market-oriented society," he said. "But in China, the leagues do not follow pure market behavior. It's impossible to get rid of the CBA."

Unless the system changes, however, Yao and other team owners themselves may have to continue paying a heavy price for pro basketball in the country. A source close to the Shanghai Sharks said it loses about 20 million yuan a year. It was losing money when Yao, who once played on the squad, bought it in 2009.

Officials at the e-commerce giant Alibaba Group Holding Ltd. are closely watching Yao's efforts. The company's sports business division has stakes in the Guangzhou Evergrande Football Club and operates online sports broadcasts.

Zhang Dazhong, CEO of the Alibaba's sports division, said the dispute between the owners and the CBA is about "whether the CBA's operations should be market-oriented or whether it should maintain administrative powers." But in his opinion, business reforms for professional sports should be led by companies and market forces.

"There is no difference between sporting and other industries," Zhang said. "They all have to follow market rules."

AUTOS

Innovation Engines

Search engines and autos had little in common before Internet firms joined the driverless and e-car sectors

By staff reporter An Limin

"Internet search engine" is taking on a whole new meaning now that companies serving online consumers are rapidly expanding into the electric car and driverless vehicle sectors.

Major Internet industry players in China such as search engine giant Baidu and video streaming service provider LeEco have launched ambitious projects in the emerging, but so far commercially untested, consumer arena for automated transportation.

Meanwhile the business of manufacturing electric cars, which has been led for years in China by traditional automakers such as BYD

Auto, is now a playing field for online companies such as marketing and information providers Autohome and Bitauto Holding.

Driving this shift in business interests are government policy makers. For example, in June 2015, officials with the Ministry of Industry and Information Technology (MIIT) made launching an electric vehicle manufacturing company easier by lowering the threshold for newcomers to get in the game, such as scrapping a previous requirement of at least three years of experience in electric car research.

The Beijing-led campaign at the heart of the policy initiative is called Internet Plus, a brainchild rolled out by the State Council in 2015 that encourages well-grounded industries such as the auto sector to modernize by incorporating Internet technologies and related business models.

MIIT chief Mao Wei said on April 25 that China wants to compete against the world's largest auto companies, and it is counting on the nation's technologically savvy Internet companies and consumer demand for electric and other alternative-power cars to drive the competitive push.

According to an auto industry source who declined to be named, government authorities are now discussing possible ways to boost electric car production by letting industry newcomers from the Internet arena pay China's established carmakers to build electric cars. Contractors could work through a Chinese version of the global industry's "original equipment manufacturer" arrangement.

In addition to government support, new auto technologies such as autonomous cars are apparently enjoying enthusiastic backing from Chinese consumers. In April, a survey released by the U.S. consulting firm Roland Berger said 96 percent of the Chinese consumers interviewed would consider using a driverless vehicle for day-to-day transportation. That compares with just 58 percent of Americans.

And in a 2015 report, one of the world's largest consulting firms Boston Consulting Group predicted China would be home to a more than 25 percent share of the world's driverless car market by 2035.

Market Warnings

Some industry analysts have questioned whether Internet companies have been right to rush into the car making business. Some say they may be hastily bowing to policy and investor pressure rather than basing their decisions on business fundamentals.

Some new players have started ambitious research, launched new factory projects and rolled out prototype vehicles. But skeptics say overcoming technological hurdles and actually getting vehicles to market will require a lot more time and money than the newcomers have so far committed.

In fact, so many Chinese Internet companies have jumped on the bandwagon that the total number of new driverless and electric car projects now "exceeds the total underway in the rest of the world," said an auto industry consultant who declined to be named.

Breaking into the auto industry requires deep pockets and long-term investment support, not just start-up cash, said Sun Muzi, auto market research director at the Beijing-based consultancy Turboinsight.

Chinese companies are still working to catch up with western companies in developing the radar systems and electronic sensors that are critical for any driverless vehicle system, said an auto security system researcher at Volvo Car Corp.

Not to be overlooked is the consumer price factor. Driverless vehicles at least in this emerging market's early years are bound to be pricey since each unit must be equipped with a large number of expensive electronic sensors, said Chen Shiquan, an automotive engineer at Tsinghua University.

Because of the cost factor, Chen said at least 10 years will pass before driverless vehicle prices fall to the point where the market is viable.

Also holding back China's electric car industry are infrastructure issues, such as a shortage of battery charging stations.

The prototype cars displayed by Internet and traditional car companies at recent auto shows look good, but they are not necessarily proof of a successful industry.

An auto company executive who asked not to be named said that "producing a good model is not difficult. But that's still a long way from mass production."

Moving Forward

Despite doubts, China's Internet companies are steering down the auto industry road at a steady speed.

In December, Baidu opened an Autonomous Driving Unit to develop a self-driving system in hopes of contending with Apple Inc.'s CarPlay and Google's Android Auto systems. Baidu said it aims to commercialize the technology in three years and start mass-producing cars within five years.

Social network giant Tencent Holdings Ltd. and e-commerce giant Alibaba Group Holding Ltd. are also investing in electric- and autonomous-vehicle research and development projects.

Last year, Tencent launched an electric- and autonomous-vehicle technology start-up with Apple supplier Foxconn Technology Group and Henan-based luxury auto dealer Harmony Auto Holding.

Meanwhile, Alibaba and China's largest automaker SAIC Motor Corp. are investing 1 billion yuan to develop autonomous vehicles. The project would grow from their successful rollout of the Roewe RX5a model SUV, introduced in April at the Beijing Auto Show and slated to reach consumers later this year, which can be controlled by Alibaba's cloud-computing system, YunOS.

Also in April, LeEco unveiled an electric concept car called the LeSEE, two months after announcing a partnership with Britain's Aston Martin Lagonda to develop electric cars such as the proposed RapidE, which is slated to hit the market in 2018.

Since November 2015, LeEco has been building a US$ 1 billion e-car manufacturing plant in the United States through its Faraday Future subsidiary. Faraday plans to compete against the U.S. electric carmaker Tesla.

Internet companies are poaching the auto industry for executives whose experience can support their new endeavors.

For example, LeEco recently hired the former CEO of SAIC Volkswagen Zhang Hailiang and the former CEO of Shanghai GM Ding Lei to lead its new auto division. And Tencent's Hong Kong-registered auto research venture Future Mobility Corp. now employs a team of managers hired away from German carmaker BMW, including BMW i8 sports car designer Benoit Jacob and former powertrain department chief Dirk Abendroth.

But traditional automakers are also playing the driverless game, which means Internet companies are not getting a free ride.

In an April interview with Caixin, Ford Motor Co. CEO Mark Fields said his company has been working on alternative energy as well as self-driving vehicle projects. Ford's China partner, Chongqing Changan Auto, recently experimented with two self-driving sedan models by taking them on a 2,000-kilometer trip from Chongqing to Beijing.

In December, BMW and Baidu steered their co-produced driverless car prototype on a 30-kilometer route through Beijing's heavy traffic. The two companies have worked together since 2014 on the development of control systems for autonomous vehicles.

Chery, SAIC and Dongfeng Motor have also introduced concept vehicles that feature Internet technologies. The curtain lifted on these concepts at the Beijing Auto Show.

Some Internet companies have shown more interest in cooperating than competing against established automakers in these emerging transportation niches.

Alibaba, for example, plans to focus on cloud data services and other types of technology support for the automated car sector, Qiu Changhen, the company's vice president, told reporters in January.

Automakers and Internet companies follow different business and profit models, Qiu said, and each type of company brings unique strengths to the automated and electric car segments. For that reason, he said, Alibaba does not plan to manufacture vehicles. ■


CFP

E-COMMERCE

Taxing Times

New levies affecting imported milk, cosmetics and other goods could put the brakes on sales of overseas consumables through websites and traders

By staff reporter Wang Qionghui

Imported consumables, including those bought online and carried home in suitcases from overseas shopping trips, have suddenly been hit with higher taxes that threaten a rapidly growing business sector.

A new tax regime that took effect in early April has also sown confusion among businesses that cater to millions of online and overseas buyers of foreign goods, from cosmetics to beef.

Consider the case of Zhang Yigong, an executive at a milk importer in

Beijing called Bay Line E-Commerce Co. Business was good until Zhang's operations were suddenly jeopardized by a "positive" list of importable items released April 7 by the government. Liquid milk was not on the list.

"I stayed up all night making phone calls and trying to figure out how to deal with the 10,000 liters of milk in my warehouse," Zhang said.

An employee of Alibaba's Tmall shopping website said traders selling imported products on the site were thrown for a loop after the list gave only "processed and preserved meat products" a green light. "What about fresh steak?" the employee asked, adding no one seemed to have an answer.

The employee who declined to be named said the list of 1,142 approved products did not include liquid milk, some types of baby formula and certain electronics.

The confusion has also apparently spread to customs officers in charge of checking imported goods at ports, border crossings and airports across the country.

Wang Shan, who helps importers manage customs paperwork at the Pingtan Free Trade Zone in the eastern province of Fujian, said shipments of some imported goods have been delayed in recent weeks while customs officers asked their superiors to clarify details of the new tax rules.

After long waits, Wang said, customers were told that what was permissible in the past is no longer allowed. "Many of our (clearance) applications have been rejected without a clear explanation," he said.

Before the release of the positive list followed by the tax hikes on April 8, e-commerce entrepreneurs were piling into the imported consumables sector and travelers were stuffing suitcases before returning home. In addition, consumers have been buying goods and having them mailed home by friends, relatives and acquaintances living overseas.

The China National Tourism Administration said the nation's travelers spent 684 billion yuan, or about 5,800 yuan per person, on goods bought in other countries last year. That figure does not include items purchased in Hong Kong, Macau and Taiwan.

Consumers also bought 140 billion yuan worth of imported goods through e-commerce platforms in 2014, according to a study by the General Administration of Customs and the consultancy China E-Business Research Center. Before the tax regime changed, that figure was expected to exceed 1 trillion yuan by 2018.

The researchers also found that more than 18 million shoppers bought foreign products through e-commerce sites or traders in 2014.

But the latest tax adjustments may have permanently changed the business landscape.

"About one month ago, almost everyone here was talking about cross-border e-commerce" opportunities in Pingtan, said Wang. Now "we're afraid to accept new orders because the policy isn't stable yet."

The new rules sparked complaints and calls for more clarity from the business community

Regime Change

Government officials say the tax regime had to be adjusted to level the playing field for companies selling imported products through websites and traditional importers that supply bricks-and-mortar stores. The old regime gave e-commerce firms an unfair advantage, they argue, in part due to a lack of clarity in tax and customs regulations governing e-commerce operations.

Under the new rules, most imported goods bought through domestic and foreign e-commerce websites are subject to a 17 percent value-added tax and a consumption tax, if applicable. The same taxes and rates have long applied to imported products sold at stores.

The new rules also change the way imported items delivered to consumers – whether shipped through an e-commerce company or by an individual from an overseas post office – are taxed.

For example, a duty exemption has been lifted for anything imported that is small enough to be subject to less than 50 yuan in taxes. Packages of goods with a total value of more than 2,000 yuan are now taxed at general trade rates, as are any items shipped to one person who has already received 20,000 yuan worth of imports before the end of a calendar year.

Previously, large and small parcels of goods bought through e-commerce companies were considered personal items, which meant they could only be taxed at postal service tax rates ranging from the most common 10 percent to 50 percent.

Meanwhile, the positive list of importable goods – jointly compiled by the customs department, the Ministry of Finance, the State

Administration of Taxation and other agencies – gave a thumbs up to e-commerce sales of more than 1,100 items.

But the new rules sparked complaints and calls for more clarity from the business community. Individuals at several e-commerce companies who spoke on condition of anonymity said they asked officials to consider re-introducing the new tax regime later after a phase-in period.

The lobbying executives apparently made headway. Within a few days of their complaints, the government made several changes. On April 13, the finance ministry said restrictions on imported baby formula would be delayed until 2018. Two days later, the positive list was expanded to include another 151 products.

Executives such as the milk importer Zhang breathed a sigh of relief on April 18 when customs decided that all goods already in a warehouse before the changes took effect would be cleared.

The government is expected to release more details and make more changes to the rules soon. Xing Yue, deputy general manager of Tmall International, said officials might adjust the floor for the value of a taxable parcel from the new regime's 2,000 yuan since "2,000 yuan is not a big deal."

Game Changer

The bottom line for businesses catering to consumers of imported goods, however, is that the game has forever changed. Most e-commerce import businesses were launched within the past few years with encouragement from policymakers. Many received financial support and special treatment through programs rolled out starting in 2012 by customs, the National Development and Reform Commission and local governments.

Officials' backing for import-oriented e-commerce firms paralleled rising consumer demand for foreign goods. In this environment, investors poured billions of yuan into e-commerce companies such as cosmetics supplier Metao.com, and the baby products websites Mia.com and Ymatou.com.

Online shopping for goods made overseas – a practice dubbed "haitao" – is especially popular among consumers who want foreign food, cosmetics, baby products and luxury-brand goods.

Companies started using bonded warehouses in free trade zones, the first of which opened in Shanghai in 2013, to store imported tax-free goods before being sold – with taxes added to the price – through websites to consumers.

As demand grew, companies poured money into warehouses and adjusted operations so that they could handle large quantities of small orders, said Zhang Tete, CEO of the bonded warehouse owner Guangdong ALOG Technology Logistics Co. in the southern city of Guangzhou. The standard business model for imported consumables, which revolved around bulk imports and sales through trading firms, lost favor.

In February 2014, Tmall became the first major e-commerce company to open a platform through which vendors could sell foreign products directly to shoppers. Similar initiatives were launched later by website operators JD.com and Netease Inc. and the courier service SF Express.

These and many smaller companies with stakes in the imported consumables sector stand to suffer, at least initially, now that the tax regime has changed, said Wang, the Pingtan company executive.

Some investors said they think the market still has great potential, and that despite higher taxes, more import-oriented companies will open to tap the huge market. But consumers may react negatively if higher taxes push up their costs and limit the amounts or types of goods sold online.

Taxes will rise "for items such as products for moms and babies, food, and health care products," Tmall's press office said in an email. "Cosmetics and electrical appliances, depending on their price, will be subject to either more or fewer taxes."

Niu Wenyi, a partner at a company that helps consumers buy goods overseas through a mobile phone app called mihui365, expects prices of imported cosmetics to jump by more than 30 percent. "Low-cost cosmetics, especially those imported from South Korea" will be hit hardest, Niu said.

For companies that benefited from the differences in tax rates between conventional imports sold at retail stores and those sold through the Internet "the future will be tough," said Zhang Zhendong, CEO of Bolome, an e-commerce company that sells imported cosmetics, clothes and other items.

Another e-retailer called the tax regime adjustments "a blow to the whole industry."

But companies that adapt are expected to survive – and possibly thrive.

The government implemented the changes to make online sales of imported goods commerce "no different than conventional trade," said Zhang Li, an e-commerce expert with the Ministry of Commerce. So firms "must be prepared for changes."

In Zhang Zhendong's opinion, though, it is a race against time. "Business models will collapse unless companies transform quickly," he said.

HEALTH CARE

Big Pharma's China Pill

Authorities are changing market rules by making multinational drug companies adjust their business strategies

By staff reporter Li Yan

China's latest round of health care market controls could be a bitter pill for multinational pharmaceutical companies that now, after years of what some call easy profits, are adapting to a tougher business climate.

The National Health and Family Planning Commission is demanding that multinationals cut prices on five types of drugs used for treating major ailments including cancer. Negotiations between the two sides, which started late last year, could reduce prices for these drugs by more than half, the commission says.

Since the second half of 2015, some provincial governments such as Hunan and Zhejiang have set limits

on the amount of money that public hospitals could spend on drugs made by multinationals.

And a policy implemented last year by the National Development and Reform Commission (NDRC) adjusted the pharmaceutical products pricing regime for hospitals in ways designed to put mainly multinational-produced brand-name drugs and generic varieties manufactured by domestic companies on an equal footing.

Authorities say these and other recent decisions are aimed at reducing health care costs for consumers and making it easier for domestic drug firms to compete against the giant multinationals that dominate the market.

Multinationals' influence in the country has been growing for more than a decade thanks to patent protection for the medicines they produce and rising demand for brand-name drugs among consumers.

Medical experts have estimated that about 20 multinationals including GlaxoSmithKline (GSK), Pfizer, Novartis and Bayer accounted for about half of all drug sales in China, which the U.S. research institute IMS Institute for Healthcare Informatics said totaled US$ 115 billion last year. An estimated 6,000 domestic companies account for the rest of the market, experts said.

Government policy adjustments as well as the slowing economy are having an impact on multinational drug company financials.

In mid-April, Bayer reported sales growth for its prescription drugs in the country slowed last year, yet still managed to climb a respectable 7 percent year-on-year to 1.6 billion euros. In its annual report for 2015, Novartis cited "weak performance" for business in China, India and Southeast Asia. Overall, the company's Asia-Russia region saw sales decline 5 percent year-on-year.

But the China market is too big – and future growth forecasts too compelling – for multinationals to pull away. London-based industry information provider Global Data said that by 2020 the nation's drug market is expected to be worth US$ 315 billion, up from US$ 48 billion in 2012.

Foreign drug makers are thus adapting to stay in the game, even if it means accepting a smaller market share and fewer profits.

Strategic Adjustments

Some multinationals have cut their workforces in the country. Others have lowered drug prices or expanded into over-the-counter (OTC) medicines. Still others have bowed out of certain market segments by refusing to bid for hospital contracts.

GSK is one of several multinationals apparently on a price-cutting trajectory. The British firm is among those negotiating prices with health commission, according to a GSK source who wants to remain anonymous. The government has declined to name the companies and drugs targeted by the talks, which were expected to conclude by late May.

But the China market is too big - and future growth forecasts too compelling - for multinationals to pull away

Ji Haiwei, a Shanghai-based vice president for GSK, said competition from domestically made generics will force his company to charge consumers less. And it is already happening: Since last summer, GSK has slashed prices for its hepatitis B treatments by up to 30 percent.

"I'm sure in the next two to three years, our brand-name drugs will be under a lot of pressure to compete with domestic generic drugs," Ji said. "You will see significant price cuts for brand-name drugs."

New limits on brand-name drug purchases by hospitals in some parts of the country are also forcing multinationals to reconsider their price strategies.

Research by Shi Luwen, a pharmacology professor at Peking University, found that about one-third of the imported brand-name drugs sold in the nation are more expensive than in other parts of the world. Before the sales limits were imposed, Shi said, hospitals were channels for about 230 types of brand-name drugs, mainly produced by multinationals.

Some multinationals responded to the limits by cutting prices or revamping their business strategies.

"Many foreign pharmaceutical companies set up special teams this year to handle local hospital bidding in hopes of improving sales through lower prices," explained a foreign company executive who asked not to be named, adding that his firm is still bidding for contracts but has slashed bid offers by half.

Some multinationals have downsized their operations in the country. Bristol-Myers Squibb says it has cut its sales team by about 1,000 since July 2014, while Novartis said in November that it had eliminated 130 positions. In connection with a bribery scandal in 2013, senior managers were among the 110 employees in China that GSK fired last year.

Multinationals are also adapting to the new climate by tapping burgeoning demand for OTC drugs, whose sales rose to 200 billion yuan in 2015 from 190 billion the year before, according to market data information provider China Industry Research.

Shi Licheng, director of the Dingchen Pharmaceutical Management Consulting Center in Beijing, said that in recent years multinationals including Pfizer, GSK and Merck have invested in the nation's OTC sector by acquiring domestic companies and building new drug-making facilities. They see the OTC business as a remedy for the slowdown in prescription drug sales triggered by government policy changes.

"Foreign pharmaceutical companies are adjusting their business and product structures," Shi said. "Company market shares will be redefined."

Other recent adjustments for foreign pharmaceutical firms have revolved around spinning off non-core businesses and giving more attention to markets in small cities where health care systems would benefit from a recent government decision to spend more on health care outside major cities.

Mounting Pressure

But strategic adjustments are not a cure-all. Business conditions early this year forced Novartis to halt all marketing for some anti-osteoporosis drugs in the country. And in March, AstraZeneca cut back by letting two Chinese companies each buy the rights to sell one of its most popular drugs.

The nation's pharmaceutical industry in 2015 saw a 9 percent increase in revenues to more than US$ 410 billion year-on-year, the China Pharmaceutical Industry Association reported. But the rise was down from the 13 percent growth posted in 2014.

The foreign executive said in some cases the slowing economy is leaving multinationals with no choice but to pull back. "As the economy slows and the pharmaceutical market weakens, foreign drug makers have to focus on their most competitive businesses to maintain competitiveness," said the executive.

Also threatening foreign pharmaceutical companies is the so-called "patent cliff," a term used to describe any sharp decline in a firm's revenues that happens after expiration of patent rights for a profitable drug. Once a patent has expired, other companies can produce and sell their own versions of that drug, usually for less than the original.

Worldwide, according to a senior foreign drug company executive who asked to remain anonymous, some 631 drug patents were slated to expire from 2012 to this year, including patents on 18 of the world's 20 best-selling prescription drugs that generate a combined US$ 142 billion globally every year.

Another executive at a foreign drug company said patent expirations could cause sales of a drug to fall by three-quarters in many countries.

Shi's research found some 70 types of drugs protected by patents were among the 230 brand-name products dispensed by Chinese hospitals. Patents for the rest previously expired.

Before the NDRC's rule changed last year, multinationals found hospitals eager to buy imported drugs because hospitals and doctors could mark up prices for patients and pocket the difference. Now, pricing policy changes and stricter supervision will give more advantage to cheaper, generic drugs.

"The previous pricing policy guaranteed foreign pharmaceutical companies a certain profit level after a patent expired partly because many doctors preferred to prescribe pricier, imported drugs to maintain a hospital's revenues from drug sales," said Zhao Heng, operator of the health care industry website Cunfuriji.com.

Meanwhile, price talks between health officials and drug companies eyeing the patent cliff and competition from homegrown generics could offer foreign drug makers a measure of security. Officials say they have proposed guaranteeing minimum purchases of foreign-made medicines in exchange for patent-protected drug price cuts.

Ma Xiaowei, deputy director of health commission, said the government is also offering foreign drug companies access to the public health insurance system. Under the proposal, he said, insured patients who buy their drugs could be reimbursed.

Zhao said foreign brand-name medicines covered by the health system would be more affordable to patients and could boost multinational sales.

GSK's Ji agreed that opening the insurance system door to multinationals would reduce patient costs and boost company sales.

Despite the challenges of policy adjustments and a market slowdown, most foreign pharmaceutical companies are banking on China. A foreign drug company executive who decline to be identified said even the threat of competition from domestic generics will not scare off multinationals entirely.

"China's domestic generic drugs are not competitive enough to challenge brand-name drugs and drag down the market prices," the executive said.

And in an interview with Caixin, an upbeat Novartis CEO Joseph Jimenez said he expects the pharmaceutical market to continue growing over the next five years. ■

Tech Progress Depends on More Reform for Intellectual Property Rights

Michael Clauss
is the German
ambassador to China

China is progressing toward becoming a technology leader. Brands such as Huawei, Alibaba, Haier and many more are gaining popularity, even in Germany. A study by the Fraunhofer Society of Germany, a global leader in applied sciences, recently concluded that China has closed the gap with Western economies in some fields related to the digital economy faster than expected. As ambassador to China I have had the opportunity to witness it myself. In Europe, we can only dream of the ease, speed and low cost of paying bills with your smartphone, as we can see in many Chinese cities across the country.

In a world progressively covered by digital applications in virtually all aspects of our lives, two things have become more important than ever: Protecting inventions and know-how and protecting brands. We all know of the enormous benefits manufacturers of smartphones, but also of kitchen appliances, cars and brand apparel, can reap once trust of the ever more demanding Chinese consumer in their product has been established. “Bekannt und bewährt” (known, tried and trusted), an old German advertising slogan, is the key to success in China like maybe in no other market in the world. And losses are all the greater when Chinese consumers are fooled by cheap copycats.

A few decades ago, the world of intellectual property was divided between the haves and have-nots, or in the parlance of real estate, of “homeowners” and “squatters.” Intellectual property experts have coined the phrase “trademark squatters.” This refers to people who scout overseas markets for trademarks that have not yet been registered domestically, which they then quickly register here under their own name. Foreign owners of the trademark are then compelled to buy off the “squatter” – often for high amounts – if they want to have their brand protected in China. This fills the pockets of the squatter but does nothing to advance innovation or to enhance the reputation of the country.

Looking at intellectual property today, China has transformed itself. Due to great technological and economic progress, it is no longer a squatter; it has become a homeowner. Today, China has a strong self-interest to protect its own intellectual property through modern legislation and, crucially, robust implementation. Modernizing procedures for trademark registration in 2014 and the reform of special courts for the protection of intellectual property, vigorously advanced by Supreme People's Court President Zhou Qiang, are important in this regard.

However, I get the impression that in the new land of homeowners in China, squatters have not altogether disappeared. Here is just one example. The case of the well-known German apparel brand Boss has raised eyebrows in Germany. This brand was registered in 1987 with the intent to protect itself from squatters, which were then still quite common in China. With this step, Boss was among the very first German brands to show trust in China's fledgling trademark protection system. Against this background, it appears rather strange that authorities appear to have chosen to protect a Chinese company operating under a confusingly similar name.

In the present situation where achieving growth is getting more and more complicated, trust in China's policy of reform and opening is needed more than ever. It would build a lot of trust if the homeowners in the field of intellectual property were better protected and squatters were firmly shown the door.

Effective and modern protection of trademarks worthy of a leading economy such as China is but one, albeit important, stepping stone that would level the path toward global economic and technological leadership. In order to realize its dream of a renaissance, China will need to do much more. Nothing less but a reorientation of thought and action is required. The key will be to realize that true strength requires the courage to face competition. The following four outdated habits should therefore quickly be discarded.

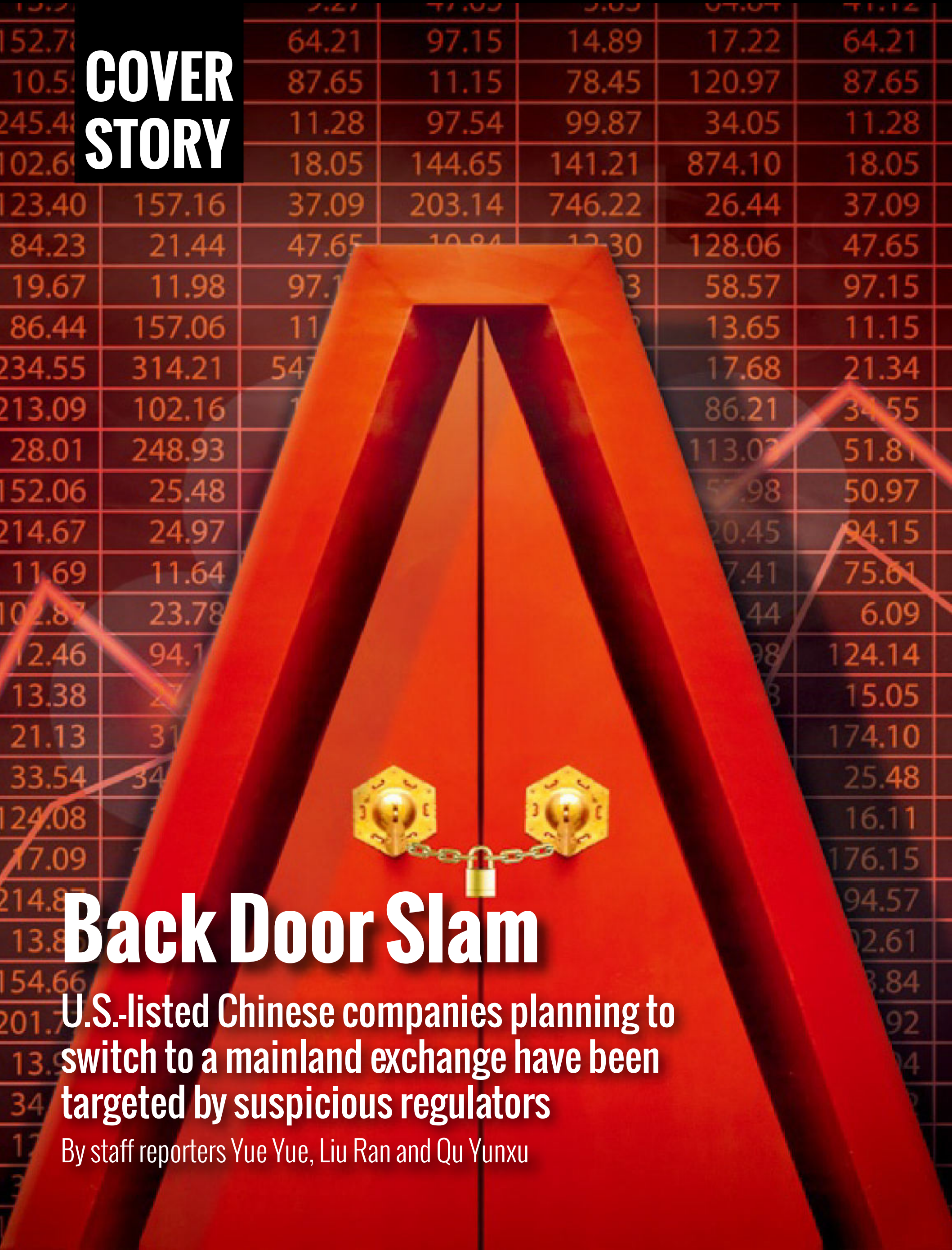
First, China should include foreign products and investments in its policy of reducing administrative burdens. Under Premier Li Keqiang's leadership, many approval requirements for business have been relaxed. Recently, a negative list has been presented – for Chinese, not foreign companies. In some areas that are enormously important to Chinese society, such as the supply of effective and innovative medicines and importing healthy food products we even see signs of retrogression. The procedures for certification of pharmaceutical products have become slower and more cumbersome. The same applies to important parts of the food industry. By now, China can afford to allow fair competition with international suppliers and this would at the same time greatly increase its consumers' trust in drug and food safety.

Second, China should in the future refrain from exerting pressure on Western companies to transfer technology to China in exchange for market access. The attraction of its market and the much improved quality of its research personnel are sufficient incentives for companies to establish research and development facilities in China.

Next, China should not see foreign non-governmental organizations, including those that work in the field of economic and scientific cooperation, primarily as a security problem. A new law on foreign NGOs could have a harmful effect unless its focus is fundamentally shifted away from its previous fixation on perceived security threats to more openness for cooperation.

Finally, China should see cyberspace primarily as a unique tool for communication and interaction between people and progressively with and between things, i.e., as the main engine driving the next industrial revolution. Without doubt, important security issues will have to be addressed. As in the case of NGOs, it will be crucial to avoid putting the cart before the horse. Perceiving the Internet first and foremost as a security threat will put you in a bad position to win the global race for innovation. As with trade, high protective walls might bring short-term relief from competition and inconvenient truths. In the long run, they will stifle innovation and slow you down on the way to the top. ■

COVER STORY



Back Door Slam

U.S.-listed Chinese companies planning to switch to a mainland exchange have been targeted by suspicious regulators

By staff reporters Yue Yue, Liu Ran and Qu Yunxu

It's not uncommon for a retail investor in China to dabble in numerology, even subconsciously, while playing the stock market.

But after share prices surged for Shanghai-listed companies with the number "360" in their ticker symbol-like market codes, regulators found a new reason for alarm over backdoor listings that don't add up.

The backdoor listing route through minor and shell companies has been cited as the most likely avenue for internationally known Chinese companies seeking to delist in the United States and raise new funds on a Shanghai or Shenzhen bourse.

Five companies have taken that route since 2013, regulators said, and a Caixin analysis of state media and company reports found dozens more were preparing to follow suit.

Yet the China Securities Regulatory Commission has decided to "conduct an in-depth study" of Chinese companies that have signaled interest in delisting from a U.S. stock market and relisting on the Shanghai A-share market through an initial public offering (IPO), merger or acquisition, CSRC spokesman Zhang Xiaojun said May 6.

The regulatory mood darkened further three days later when, in an article published in the official Securities Journal newspaper, a former CSRC branch director warned about possible market violations linked to backdoor listings and shell company investments. Zhang Yundong, who headed the agency's Shenzhen office between 2000 and 2012, wrote in a commentary for the paper some market players may be defrauding investors by manipulating financial information and share prices. And some may be guilty of insider trading, he wrote.

Moreover, citing fears of a dangerous share price bubble, CSRC in early May put a temporary hold on all stock activity related to mergers and acquisitions among Internet-platform companies in the online financing, videogame, film, TV and virtual reality sectors, a person close to the commission told Caixin. The ruling was likely to affect three companies – China Mobile Games Entertainment Group, Bona Film Group Ltd. and Youku Tudou – that recently delisted in the United States and started restructuring assets to prepare to join a Chinese bourse.

Plus in March, in a related move, the National People's Congress, the top legislator, scrapped a plan initiated by the State Council in June 2015 to create a new trading platform for technology companies through the ▶▶

Shanghai Stock Exchange. A fund manager who asked not to be named said the decision dashed mainland listing hopes among unprofitable tech companies because the platform, unlike other Chinese bourses, was slated to welcome money-losing innovators.

Zhang said CSRC's decision to monitor backdoor listings came after officials "noticed a big difference in (share) prices between the domestic and the U.S. markets" as well as a raft of "shell company speculation."

One event that likely fueled regulator suspicions followed the June 2015 announcement by online security software developer Qihoo 360 Technology Co. that it planned to delist from the New York Stock Exchange, where the company's stock has traded since 2011.

Qihoo has not spelled out all of its plans for floating stock in China, but market speculation has revolved around a backdoor listing scenario using a listed shell company. Based on that speculation, according to a brokerage source who asked not to be named, Chinese investors recently flooded brokers with buy orders for shares in shell companies whose stock codes included the number "360."

"The market is too irrational," said the source, who specializes in backdoor listings. "It's ridiculous."

Tighter Times

The CSRC decision for a "study" and Zhan's statement a few days later sent a message to the market that government policies "will definitely be tightened," said Wei Shanwei, managing director of the Beijing-based investment bank China Renaissance Partners.

Deng Ziqi, an analyst who tracks U.S.-listed Chinese company stock for the San Francisco-based investment firm Matthews International Capital, said CRSC wants to closely monitor as well as guide companies while they map out routes to Chinese stock market fundraisers.

"In the long run, many Chinese companies will eventually head back" to domestic stock markets, Deng said. "But CSRC will pay more attention to the impact of market speculation over backdoor listings."

CSRC's message had an immediate impact on the share prices of most U.S.-listed Chinese companies slated to sail home after pulling out of New York. The next day on the Nasdaq exchange, Internet service provider 21Vianet Group Inc. saw its share prices fall 24 percent, while shares in e-commerce website operator Dangdang Inc. and Qihoo slumped 13 percent and 11 percent, respectively.

The Bloomberg China-U.S. Equity Index, which tracks U.S.-traded Chinese companies, fell more than 3 percent within three days of the CSRC announcement.

No wonder brokers in China took CSRC's decision as a call to action. Some played it safe by refusing new delisting projects and accelerating work on any projects already on the table.

"We will try to speed up ongoing (U.S. delisting and China-listing) projects before new (regulatory) policies are issued," said an brokerage source who focuses on investment banking but requested anonymity. "We will not accept new projects due to policy risks."

According to a survey of state media and company reports, 38 U.S.-listed Chinese companies last year announced plans to delist as a first step toward listing on a Chinese bourse. As of mid-May, according to these reports, at least 28 companies had started delisting procedures.

Five Chinese companies including online game developer Giant Interactive Group and outdoor advertiser Focus Media Holding have delisted in the United States and listed on the Shanghai and Shenzhen A-share market over the past three years, CSRC said. Each has seen its share value surge in China.

For example, just two months after online video service provider Beijing Baofeng Technology Co. joined Shenzhen's ChiNext exchange in March 2015, the company's share price surged to 372 yuan from less than 10 yuan. The company delisted from Nasdaq in 2013.

The idea of swapping one stock market for another reflects an assumption held by Chinese company executives that their Shanghai or Shenzhen share values would be higher than those traded in New York.

Chinese stock market data provider Wind Info. concluded that U.S. shares of Chinese companies were trading in 2015 at an average price-to-earnings ratio of 23, compared to a PE ratio of 57 for the average share in Shanghai and Shenzhen. At the same time, technology and fast-growing companies trading on Shenzhen's ChiNext board posted an average PE ratio of 70.

Chinese technology firms listed in the United States posted an average PE ratio of 15 in 2015, compared to 97 for similar companies in the same sector listed on the Shanghai A-share market, Wind said.

A Qihoo document obtained by Caixin said the company expects ▶▶

its market capitalization would exceed US$ 58 billion after listing on the Shanghai A-share market. Its current market cap in New York is about US$ 9 billion.

Danger Zone

Wei said regulators are especially concerned about huge cash outflows from the mainland as Chinese companies buy out holders of their U.S. stock in the course of delisting.

One private equity source who asked not to be named said, "Chinese companies will have to spend billions of dollars to buy shares from overseas market investors, leading to a huge capital outflow" from China.

"This is something regulators don't want to see."

Chinese companies have been listing in New York since 1992. Some chose to go abroad to escape relatively strict and time-consuming IPO procedures in China, while others bowed to foreign investor demands.

After going abroad, Deng said, many Chinese company executives regretted the decision after deciding that their share values would have been higher at home due to China's investment climate.

"The Chinese capital market has a greater appetite for risk," Deng said. "Its valuation system is different than that in developed markets. It can give weaker companies higher risk premiums that they could not get in other markets."

Among the risk-takers that might be willing to send coming-home company share prices through the roof are retail investors seeking quick gains through wealth management products.

For investors willing to pony up at least 1 million yuan, wealth management firms have been promising annual yields of up to 30 percent for products that include shares in Qihoo and other companies. Retail investors with thinner wallets can also play the game by buying shares in these products equal to between 1 percent and 20 percent, said a private equity investor who asked not to be named.

But this investment game is putting retail investors at risk, said Bao Fan, chairman of China Renaissance.

A CSRC official who declined to be named told Caixin that "valuation arbitrage" has been the "obvious" reason why, to date, share values have jumped dramatically for companies upon joining a Chinese bourse after delisting from a U.S. exchange.

Values shot up the moment a company completed the switch, even though "no matter where it's listed, a company's business fundamentals do not change greatly in a short period of time," said the investment banking-focused broker. Thus, companies rushing to come home have been "betting on making huge profits from a valuation surge by moving to a market where valuations are high."

But CSRC's decisions threw cold water on the process and raised questions about scheduled delistings in New York and backdoor listings in China. The commission "is sending a strong signal to stop the hype," said Wei.

"A backdoor listing is a normal market practice," Wei said. But regulators have detected "price distortions and potential violations" of stock market regulations.

Companies with strong financials may be more resilient to the policy change. In due time after a U.S. delisting, companies with strong financials could launch a mainland IPO or float stock through a backdoor listing, said a private equity source. They also might consider climbing aboard the Hong Kong Stock Exchange or China's New Third Board for private firms.

Because no one knows how long the CSRC decision might stand, or whether further restrictions might be imposed, investors who hold shares in dozens of coming-home companies are now biting their nails.

Qihoo investors are especially anxious, Caixin has learned. The company had started raising funds to buy back New York shares and delist before CSRC took its latest action. And Qihoo's main underwriter, the brokerage Huatai Securities, had been expecting the company to finish the delisting process in June. ■

NARCOTICS

High on Defiance

Staying one step ahead of the law has been a successful strategy for clandestine chemists who produce synthetics for the world's recreational drug users

By staff reporters Lin Zizhen and Guo Qingyuan

A new breed of Chinese chemist bent on beating the legal system is helping satisfy global demand for synthetic recreational drugs.

Working in clandestine labs across the country, these drug-making chemists are tweaking formulas to produce synthetics that get people high without breaking the law or, if illegal ingredients are indispensible for the desired effect, without getting caught.

They're managing to stay one or more steps ahead of the authorities –

including police and even Supreme People's Court justices – who've been working harder in recent years to control the production, export and domestic use of psychoactive substances.

Drug experts say the chemists have what it takes to adjust chemical combinations quickly and get around a new drug law or prohibition almost as soon as it takes effect. They're also nimble exporters who sell their wares internationally through the Internet and find creative ways to ship products overseas.

Most of the psychoactive substances developed in recent years by the nation's chemists have been or are being produced for drug users overseas, said Wei Xiaojun, general office deputy director at the China National Narcotics Control Committee (CNNCC), an anti-drug abuse task force representing 23 central government ministries.

Orders for Chinese-made synthetics are often placed by overseas clients through the Internet, Wei said. The products are then disguised and shipped through standard postal services.

Chemists working for synthetics drugs makers can design new products quickly by combining cheap and fairly common chemicals, said a researcher who works at a government testing facility called the National Laboratory for Narcotic Drugs and asked not to be named. By breaking down a substance into its main components, the researcher said, a lab chemist can design and produce "a new generation of a product."

A variety of synthetic drugs may share the same chemical base, "like a big tree," the researcher said. "The trunk is the same, but it's different because of changes on the small branches."

After production, illegal drugs may be added to chocolates or drinks, or infused into paper or plant leaves to avoid detection by police and customs officers during shipping, the researcher said.

At a November press conference focusing on the fight against illicit drugs, officials from the Ministry of Public Security said "a substantial" share of the newer psychoactive substances circulating on the global synthetics market were "produced in China." And as the country's impact on the world's recreational drug scene has grown, they said, authorities have been stepping up efforts to control synthetics.

An official who works in the ministry's drug control office, Zhao Zhongchen, said synthetics makers have also benefited from the fact that Internet sales can be hard to control. It's also helped that many substances banned in other countries have been legal in China, at least until recently.

Getting Tough

Authorities have stepped up efforts to control synthetic drug production. In April, the Supreme People's Court added 12 drugs, including methylone and tramadol, to a national list of controlled substances whose illegal use can be subject to criminal penalties. The court also lowered criminal possession thresholds for 33 chemicals.

The court's action followed an October decision by the CNNCC to add 116 types of psychoactive drugs to a controlled substances list that had included only 13 chemicals since it was compiled in 2013.

Meanwhile, the criminal justice system is trying to stop illegal drug production and trafficking. Official data show that courts across the country handled nearly 140,000 drug-related cases last year, up 30 percent from 2014.

Over the past couple of years, state media reports, police have investigated production operations and sales of synthetic drugs such as methcathinone in Shanxi, Shaanxi, Hubei, Hunan, Jilin and Henan provinces, as well as in Tianjin.

Another element of the anti-drug effort emerged in June 2015, when the central government called for government agencies, businesses and the public to join a nationwide fight against Internet-related drug trafficking. Police in other countries were urged to join the country's fight

Courts across the country handled nearly 140,000 drug-related cases last year, up 30 percent from 2014

as well.

Last year, a synthetic drug called 25i-NBOMe that was made in China and sold online was blamed for the death of a young man in Australia. The drug's origin was traced by the victim's father to a drug gang in the eastern province of Anhui. The father also learned that possessing the drug was legal in China at the time his son bought it, but illegal in Australia. The substance has been included in the 2015 CNNCC list of controlled drugs.

Also last year, customs officers and police raided a chemical warehouse in the central city of Wuhan and found ingredients that could be used to make illegal drugs. The warehouse "looked like a huge chemical lab," said a customs officer who joined the raid but asked not to be identified. "When we arrived, they were in the production process."

The company's owner was a chemistry professor who taught at a university in Wuhan, authorities said. Police launched a probe after a suspicious white powder was found in nine parcels he tried to mail to customers in other countries in November 2014.

Zhang used the Net to sell nearly 200 kilograms of synthetic drugs worth millions of U.S. dollars to clients in the United States, Britain, Canada and Australia between March and November 2014, police told the state-run Xinhua News Agency. The professor learned about overseas demand for recreational drugs years earlier while teaching in Australia, then started a production business in 2005 after returning home.

Another professor was arrested in May 2014 in the central city of Xi'an for producing and selling methcathinone to clients abroad, including in Myanmar.

Verdicts for the two professors are pending.

The mysterious powder found in parcels mailed by the first professor in 2014 "was neither a traditional drug such as heroin nor a known synthetic drug such as methamphetamine," another Wuhan customs official said. "We couldn't immediately determine what it was."

Further tests identified the powder as methylone, a new synthetic drug that could be used as a substitute for a banned drug called methcathinone.

People close to the police said recreational drug users in the country first started using methcathinone, commonly called "muscle," as a less expensive substitute for cocaine in 2010. A police officer in Changzhi, in the northern province of Shanxi, said muscle was selling on the black market that year for up to 6,000 yuan per kilo.

The officer remembers local authorities at that time knew nothing about methcathinone and "dealt with it as if it were caffeine," which in some forms is a controlled substance in the country.

Caffeine powder was widely abused in Shanxi starting in the 1960s by coal miners and truck drivers who worked long hours. More recently, methcathinone became the local blue collar drug of choice. That trend ended with a police crackdown that, since late 2011, has restricted access to methcathinone in Changzhi. ■

HEALTH CARE

Cash Cow 'Cures'

Hospitals are offering expensive cures whose efficacy has not been proven by clinical trials thanks to legal loopholes

By staff reporters Sheng Menglu, Cui Zheng and intern reporters Liu Yueming, He Sulan

The death of a university student who had complained about an expensive cancer treatment he received at a military hospital in Beijing has raised concerns about medical facilities exploiting legal loopholes to offer experimental treatments that have not been adequately tested.

When a doctor at the Second Hospital of the Beijing Armed Police Corps told them about a new immunotherapy that can control their son's cancer in September 2014, the

Patients protest outside an army hospital in Beijing on May 4 demanding refunds for what they say were ineffective treatments parents of Wei Zexi said they saw a ray of hope.

"A senior physician told my parents that they offer the treatment together with Stanford University, which developed the technology," Wei wrote in an article posted on zhihu.com on February 26.

The doctor claimed the treatment had an 80 to 90 percent chance of being effective, the 21-year-old student suffering from a rare cancer, wrote. "He even promised my parents that I could live for at least another 20 years."

Wei, a college student from Xianyang in northwestern province of Shaanxi, was diagnosed with sarcoma, a cancer in the connective tissues that support internal organs, in April 2014. His parents were looking for alternative therapies after four rounds of radiation treatment and 25 sessions of chemotherapy, which he received from May to August 2014, failed to improve his condition.

After the promising discussion with doctors, Wei underwent four rounds of a treatment called "DC-CIK biological immune therapy" at the military hospital from September 2014 to February 2015. The treatment cost 200,000 yuan, and Wei's parents said they had used up all their savings to pay for it.

However, his condition deteriorated, forcing him to switch to radiation treatment and chemotherapy, he wrote. Wei said he learned about the therapy from search engine Baidu and complained that he felt the Internet giant had misled him.

Wei died on April 12, according to a public statement released by the family on May 1. It is not clear whether the immunotherapy worsened his illness.

The government launched two separate inquiries into the hospital and the search company Baidu Inc. after the death.

False Claims

The hospital had made several false claims, a Caixin investigation found. Stanford University in California said it was not working with the military hospital. "Stanford has no relationship to this case or with the hospital," said Becky Bach from the Office of Communications and Public Affairs at Stanford's School of Medicine in a response to a Caixin inquiry.

The therapy involves extracting dendritic and lymph cells either from a patient or a donor, culturing them, and implanting them in the patient to boost the immune system to enable it to fight cancer cells.

Only a few therapies using this technique have been approved for clinic treatment in the United States because most trials have failed to prove its effectiveness, said Dr. He Ting who specializes in tumor biology research at Tsinghua University in Beijing.

The pharmaceutical company that developed the technique to treat late-stage prostate cancer was approved by the Food and Drug Administration in the United States in 2008, said He, but the company filed for bankruptcy in November 2014 because the treatment was too expensive and did not show results as expected.

The hospital had advertised the therapy online as "the world's most advanced cancer treatment" and it topped the search results for immunotherapy on Baidu, Wei's parents said.

Baidu came under fire earlier this year for selling bulletin boards used by sufferers of specific diseases to companies that allegedly promoted shoddy services. The Cyberspace Administration of China, the government body that supervises the country's Internet, said in a statement on its website on May 9 that Baidu "cannot rank search results merely based on the amount of money" that the company's customers pay, after its investigation.

It is not clear how much the search company charged hospitals to let them appear on top of their search result ranking system. Baidu said in a statement issued on May 1 that the company regrets Wei's death and that it will cooperate with the investigation.

Wei did not intend to target any institution or individual when he posted his experience online, his parents said. "He only wanted the public to know that the immunotherapy did not work on him," they said, and Wei had received nearly 4,000 emails from patients asking about the treatment.

Cash Cows

Nearly 150 hospitals around the country offer therapies using this technique or variants of it, a 2013 survey by China Medicinal Biotech Association, a non-governmental industry body, show. Over 5,400 patients opted for these cures in 2013 alone, it found.

The association warned in a report that hospitals were offering this expensive treatment, even though there were no authoritative clinical trials in China to prove its effectiveness, to fatten their bottom lines.

A doctor working at a major hospital in the northern province of Hebei told Caixin that the medical facility started offering similar immunotherapies in 2009 as an experimental treatment for cancer patients when chemotherapy or radiation had failed. The hospital did not conduct any clinic trials before introducing the cure, the doctor said, but the therapy was widely promoted

'A senior physician told my parents that they offer the treatment together with Stanford University, which developed the technology'

as an advanced treatment for patients suffering from different types of late-stage cancers because it bought additional revenue to the hospital.

"It does not necessarily save or ruin lives but it's really a cash cow," said the doctor who asked not to be named.

Legal gaps for governing medical research, clinic trials and the development of new treatments have led to the spread of irregularities in the health sector, experts said.

Universities, research institutions and hospitals in China only need approval from their in-house ethical committees to start medical research projects or clinical trials, a biologist who asked not to be named told Caixin, and leaving room for possible abuse.

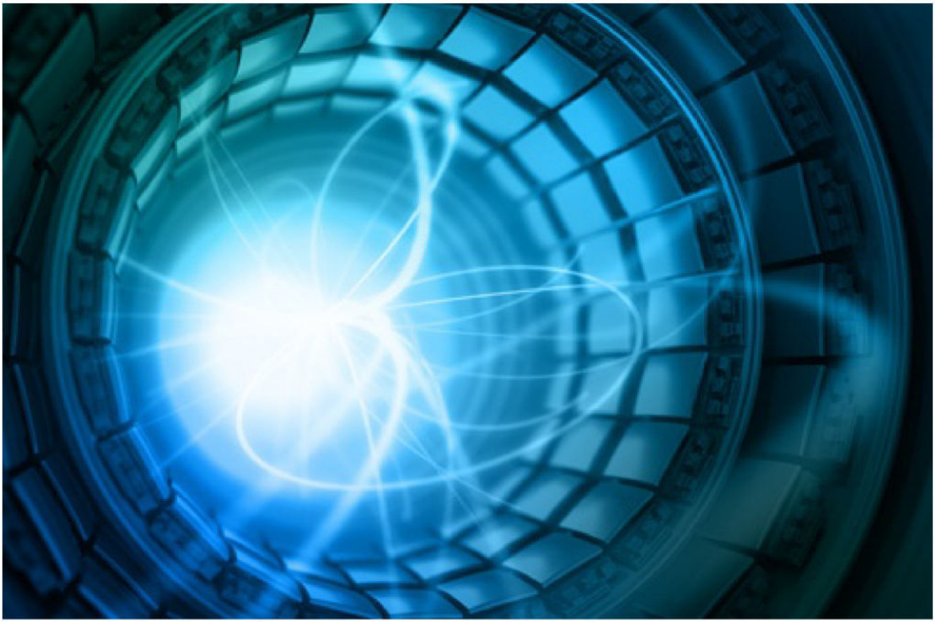
The military hospital had outsourced its immunotherapy unit to a private company, Shanghai Claison Bio-tech Co. Ltd., said Chen Yuanfa, a medical industry whistleblower close to Putian (China) Health Industry Chamber of Commerce. The chamber is the largest grouping for private hospitals in the country with over 8,600 medical establishments in the country as members. This includes several clinics run by Shanghai Claison Bio-Tech.

The military hospital had no oversight on the doctors and staff who worked at this outsourced immunotherapy unit, even to ensure that they had the required qualification or accreditations, Chen told Caixin.

Another private company managed the military hospital's website and was responsible for marketing its services including the DC-CIK treatment, he said.

The National Health Commission, which oversees the medical sector, does not have the legal teeth to impose heavy punishments on hospitals to deter similar irregularities. Existing regulations do not allow the authority to fine culprits or file criminal charges in courts, said Liu Ye, a lawyer at the Haishang Law Firm in Shanghai.

"To prevent abuse of immunotherapy technology, legislators need to come up with a set of legal guidelines to regulate research, clinical trials and their applications," Liu said. ■



TECHNOLOGY

Unlocking Universal Mysteries

China's plan to build the world's largest particle collider may improve human understanding of the origins of matter, but critics say it's wishful thinking

By staff reporters Zhang Yan and Yu Dawei

China plans to invest US$ 6 billion to build the world's largest particle collider to get a foot in the door of experimental physics dominated by European and American research labs, but some scientists warn it could be a wasteful undertaking.

The blueprint for what scientists call a super collider, an underground facility to smash subatomic particles at high speeds, was drafted in 2014 by scientists at the Institute of High Energy Physics (IHEP) in Beijing. The project, dubbed the "Higgs

Factory," aims to build a facility capable of generating millions of Higgs boson particles, which physicists say form the building blocks of the universe.

Scientists at IHEP have completed the design for an underground ring with a circumference of 50 to 100 kilometers that can smash together electrons and positrons, state media reported in October. If built, it would be at least twice the size of the world's largest particle accelerator, a 27-kilometer circular tunnel beneath the Swiss-French border.

The plan has yet to be approved by the central government, but scientists are optimistic that research needed to build the facility can start in late 2016. Construction of the first phase of this Circular Electron Positron Collider is expected to begin in 2021 near Qinhuangdao, a port city in the northern province of Hebei, scientists said.

The second phase of the project, which will upgrade the facility to a proton–proton collider, is set to start by 2040.

The lab could help the country "leap to a leadership position in an important frontier in basic science," wrote David Gross, an American theoretical physicist and Nobel laureate, in a commentary in the Wall Street Journal in September.

The project "would transport physics into a previously inaccessible high-energy realm," wrote Harvard professor Shing-Tung Yau and science journalist Steve Nadis in their book,

'It is hard to say whether it is right or wrong to invest so much to build a collider'

From the Great Wall to the Great Collider, published in April.

But the plan has hit a snag, with several scientists warning the project might be an unrealistic and wasteful endeavor. The government has also been cautious. It has not given any feedback on IHEP's proposal so far, sources close to the project said.

Doubtful Leap

The discovery of the Higgs boson particle in 2012 was seen by experts as one of the biggest scientific breakthroughs in human history, changing the way we understand our universe, how it originated and its future.

It was found by a team of scientists experimenting at the Large Hadron Collider (LHC) by crashing high-energy proton beams at velocities near the speed of light. This research facility, operated by the European Organization for Nuclear Research, is known as CERN.

However, the accelerator may not be able to generate large quantities of Higgs boson particles to support further studies, said IHEP director Wang Yifang in a 2015 interview with state-run newspaper China Daily.

The "LHC is hitting its limits in terms of energy levels (needed to smash particles)," said Wang. "It seems that it is not possible to escalate the energy (level) dramatically at the existing facility."

CERN said in October that it was working on improving its facilities by 2025.

China's particle accelerator promises to go a step further in unlocking the mysteries of the universe. It will operate at about seven times the energy level of the LHC, said Wang, and will be able to generate large quantities of Higgs boson particles to try to recreate the conditions that followed the Big Bang, one theory that explains the origins of the universe and matter.

Critics, however, doubt this plan. Some theories have proved that the study of particles using high energy collision experiments has almost reached its limits, said Cao Zexian, a physicist at the Chinese Academy of Sciences. "Nobody can be sure that high energy colliders can make new discoveries," and that is why no other country has proposed the construction of a new collider, he said.

Wang says there are several areas in the field of high energy physics that still need to be explored. Countries like the United States are hesitating to build new facilities due to cost concerns amid an economic slowdown, he said.

In the 1980s, the United States started to build what was called a Superconducting Super Collider with a ring circumference of 87.1 kilometers, but the project in the state of Texas was called off in 1993 due to rising costs.

Although many physicists say they want a bigger facility for further research, sluggish economic growth in the United States and debt woes in Europe are preventing governments from investing large sums to develop the field of high energy physics, Michael Riordan, professor of physics at University of California, Santa Cruz, said.

IHFP operates a 220 meter electron-positron collider in Beijing, the largest one in the country, built in 1990.

Chinese authorities may be waiting for more research to show that high ▶▶

energy physics is a promising field of research to invest in. In December 2015, scientists at CERN said the LHC might have discovered a new particle, which cannot be defined using existing laws of physics.

Researchers are expected to publish detailed findings about the new particle by the end of the year, said Xu Cenke, professor of physics at the University of California, Santa Barbara, and their findings will serve as an important reference when Chinese authorities decide whether to go ahead with plans to build a domestic lab.

Weighing the Benefits

The research needed to build the collider will improve technology used in several industries, Wang aid. Some areas that can benefit are cryocooler technology, a cooling technique that can be used to preserve human cells and organs, designing precision machines used on assembly lines and discovering new material to build semiconductors for computer chips, he said.

"Every dollar we spend on the collider will help improve the country's technological capacity," said Wang. Most of the components needed to build the facility will be made domestically by local scientists, he said.

But Cao from the Chinese Academy of Sciences said key components and technologies needed for the project will have to be imported because the country's high-tech research and precision machine development capabilities still lag behind those of developed countries. Most of the money will be spent on buying imported equipment and parts, he said.

Some experts worry that the costs could rise way above the estimated budget. When the LHC was completed, the final bill stood at US$ 9 billion, more than three times the initial budget of US$ 2.6 billion. It also costs more than US$ 1 billion every year to operate and maintain the facility.

Opponents of the projects argued that instead of building a larger collider, the money should be spent on developing other fields of research with a more immediate social impact.

"It is hard to say whether it is right or wrong to invest so much to build a collider," said Cao. "But before that, we can try to improve our computer chips and the tips of ballpoint pens."

How Local Land Policies Hurt Businesses in Megacities

Xue Hongyan is a senior research fellow of Suning Institute of Finance in Beijing

Earlier this month, social media sites in China were littered with comments linked to an online post that suggested telecom equipment manufacturer Huawei Technologies Co. Ltd, might move its headquarters from the southern city of Shenzhen to Dongguan, a smaller city bordering it.

The online article, Don’t Let Huawei Run Away published by an anonymous Internet commentator, said the company has been expanding its businesses in Dongguan, where land and property are much cheaper. This will diminish the company’s contribution to the economy in Shenzhen, where it had been a major player for decades.

Huawei released a statement days later saying it had no plans to relocate.

But the heated online debate on the issue underscores widespread concerns over the impact of rising property prices on businesses in large cities such as Shenzhen, Guangzhou, Shanghai and Beijing.

Many fear that escalating land values and house prices in these mega cities, which affected homebuyers and small businesses for years, are now starting to hurt big firms like Huawei.

It is not the first time Shenzhen has been at the center of a public discussion on the rivalry between cities to attract top businesses.

In 2003, an Internet commentator who wished to remain anonymous wrote a popular entry on Shenzhen’s waning competitiveness titled Shenzhen, By Whom Will You Be Abandoned, warning that big companies might shift to places such as Shanghai, Beijing and Guangzhou.

The author raised the alarm over the possible departure of the big four headquartered in the city, China Merchants Bank, Pingan Insurance (Group) Co., ZTE Corporation and Huawei, due to bureaucracy and government inefficiency and lapses in enforcing law and order.

Shenzhen was one of the first four special economic zones set up in the early 80s at the start of China’s reform and opening up process. But its reform process has been choked by growing red tape.

For example, every migrant worker is required to get a temporary residence permit to live and work in the city. One needs 11 stamps from various government agencies when applying for this document.

Rival southern cities such as Guangzhou, however, moved swiftly to ease restrictions after a migrant worker, who arrived in the city without proper documents, was beaten to death at a detention center in 2003.

After Guangzhou pushed ahead with reform, Huang Liman, the party secretary of the city at the time, told officials to assess the possibility of Shenzhen losing its competitive edge to other rivals. Huang said the city cannot just rely on preferential policies rolled out by the central government when the special economic zones were launched decades ago, because others were catching up. The city was at a disadvantage geographically compared to rivals like Shanghai even though living expenses and the costs of doing business were rising at a comparable pace, he said.

The southern metropolis has come a long way over the past decade after authorities raced to improve governance and efficiency. The big four firms are still in Shenzhen.

However, land and house prices have risen quickly in that time, and this has once again raised concerns on whether the metropolis will lose business to a smaller bustling rival like Dongguan.

The costs of land, capital, technology and information jumped by more than half in Shenzhen in 2015, according to a report released by the China Center for Promotion of SME Development, a government-backed non-profit organization.

As a result, a rising number of small- and medium-sized manufactures have moved their factories out of Shenzhen and large companies are likely to follow suit.

Although Huawei denied it has any plan to relocate, the company has quietly built a cluster of research and development centers and factories outside Shenzhen.

The company's founder, Ren Zhengfei, during a recent interview, warned that land is becoming increasingly expensive, and this has limited the potential for businesses to develop in China.

Governments are relying on selling local land to property developers to fill their coffers amid slow growth.

The property market, however, has strayed far from its role as an industry to provide homes or work spaces and has become a tool used by local governments to prop up their economies. This has pushed up costs and is threatening to push out businesses from big cities.

Authorities in some regions often use land policies as a leverage to replace traditional manufacturing with high-tech companies and suppliers of value-added services.

However, if regional governments take these policies too far, it could force out manufactures in traditional sectors, and high-tech firms and suppliers of modern services may also be reluctant to move in. ■

PUNISHMENT

Loosening the Noose

Rules issued by the country's top court and prosecutor's office have expanded the definition of bribery and pushed up the requirements for the death penalty

By staff reporters Zhou Dongxu and Shan Yuxiao

New legal guidelines for judges and prosecutors handling graft trials have revised the minimum threshold for cases that qualify for criminal prosecution and clarified where capital punishment can be used, moves legal experts say will reduce confusion in courts.

The document released by the Supreme People's Court and the Supreme People's Procuratorate, the prosecutor's office, on April 18 said defendants found guilty of embezzling funds or accepting bribes worth more than 3 million yuan, or about US$ 460,000, will receive the death penalty. Previously, officials convicted of taking bribes worth 100,000 yuan or more could be sentenced to death.

The guidelines apply to graft trials involving government workers, including bureaucrats and employees of state-owned enterprises.

The benchmark for a case that qualifies for criminal prosecution has also been raised. A criminal case can be brought if a bribe is 30,000 yuan or more, up from 5,000 yuan, the document shows.

The guidelines supplement revisions made to the Criminal Law in November, and replace sentencing criteria set out in 1997, which have long been criticized for being out of date.

Under the new rules, embezzling funds or receiving bribes worth 10,000 yuan to 1.5 million yuan is defined as a "relatively serious offense" and carries a prison sentence of three to 10 years. Those suspected of taking 1.5 million yuan to 3 million yuan in bribes are labeled "serious offenders" and will face a minimum jail term of 10 years, and up to life imprisonment.

If defendants are convicted of "especially serious" offenses with an "extremely vile impact," such as stealing funds earmarked for disaster relief efforts, they may face the death penalty, the document show.

This is the first time in two decades that the sentencing criteria for graft cases have been revised. Several legal experts said the guidelines were more lenient than what they expected.

Most graft cases involve amounts between 100,000 yuan and several million yuan, said Sun Guoxiang, a law professor at Nanjing University, and under the new rulesmost defendants may get less than 10 years in prison, much shorter than some of the previous jail terms meted out.

Widening the Net

The guidelines, however, have broadened the definition of what qualifies as graft, said Sun, and includes a clearer definition of violations, closing a few legal loopholes.

For example, accepting expensive gifts from a subordinate will be regarded as bribery under the new benchmark, even if no specific request was made by the giver at the time of presenting the gift. Earlier, such practices fell outside the definition of graft because it was difficult to establish a link between accepting gifts and officials' decisions and professional conduct, Sun said.

The definition of a bribe was expanded to include writing off an individual's or company's debt, having a house renovated for free, paid trips, club memberships and other benefits.

"(The guidelines) eliminate confusion," said Zhang Qingsong, a lawyer at Beijing Shangquan Law Office.

Previous rules emphasized on heavy penalties, but the revision stresses broadening the definition of corruption and setting clearer criteria for punishments, said Huang Jingping, a law professor at Renmin University in Beijing.

"The function of the Criminal Law is to define timely and definitive punishments for all forms of corrupt practices," said Huang.

An immediate death penalty sentence has rarely been imposed on senior officials convicted of corruption in recent years. Officials charged with committing grave violations were given a suspended death sentence that came into effect after two years. These sentences could be commuted to life imprisonment or reduced even further.

In 2013, former railroad minister Liu Zhijun was given a suspended death sentence for taking 60 million yuan in bribes. The sentence was commuted to life imprisonment in 2015.

In June 2015, Zhou Yongkang, the former domestic security tsar, was jailed for life after being convicted of accepting 130 million yuan worth of bribes along with his family and leaking state secrets.

Criminal charges have been brought against 22 ministerial-level officials accused of corruption since the Communist Party's anti-graft campaign started in late 2012, Caixin calculated based on media reports. They were convicted for taking bribes totaling over 500 million yuan. Three were sentenced to life in prison.

Criminal charges have been brought against 22 ministerial-level officials accused of corruption since late 2012

"If lighter punishments don't lead to a rise in corruption cases, it will show that the new rules have deterred unlawful behavior," said Zhang.

Zhu Yongming, a lawyer appearing in criminal cases, said the country needs "comprehensive institutional arrangements, such as a system for officials to disclose their assets to the public and an effective supervision mechanism."

Corrupt officials can be punished by organs other than the courts. The Central Commission for Discipline Inspection, the party's anti-graft agency, first carries out an investigation into suspect officials and detains them in some cases. Officials who are found guilty of "violating party discipline," a euphemism for graft, can be demoted, or removed from their position and expelled from the party. The anti-graft agency only hands over cases that qualify for criminal prosecution to the state prosecutor's office.

"How do you effectively connect the party's disciplinary organs and law enforcement units is an issue that needs to be addressed," said Sun. "The main problem is how administrative and party penalties are used to punish officials whose offences do not qualify for criminal prosecution," said Sun. ■

LAW ENFORCEMENT

Skeletons in the Closet

A murky incident has sparked a heated online debate about police violence and questions of accountability

By staff reporters Shan Yuxiao, Wang Heyan, Zhou Qijun and intern reporter Luo Guoping

Lei Yang left his Beijing home at about 9 p.m. on May 7. About four hours later, his family learned that he had died suddenly while in police custody.

The exact circumstances of Lei's death remain a question mark because the results of an autopsy had not been published as of May 23 and police have not released video footage of a raid.

Lei was a graduate from the prestigious Renmin University in Beijing and worked at the China Association of Circular Economy, a state-backed industrial association promoting the use of recyclable resources.

He was on his way to the airport to pick up relatives coming to see his newborn baby, who was barely two weeks old, his family said.

The 29-year old was among six suspects detained by plainclothes officers during a raid at a foot massage parlor a few blocks from Lei's home, Changping district police said in a brief statement on its official Weibo microblog two days after the death. The spa was a front for an illegal brothel, police said, and Lei allegedly died of a heart attack.

Lei's family immediately published a statement refusing to accept the police explanation on May 9, saying Lei was in good health just before his untimely death. Lei played soccer regularly, the statement said, and neither Lei nor his family had a history of heart problems, it said.

The death sparked a heated debate on social media with hundreds of thousands of angry posts raising suspicions over police brutality and demanding accountability.

Lei resisted arrest and attempted to flee, the police statement said. Officers forcefully restrained him and he suddenly fell ill on his way to the police station in the area, police said. He was rushed to a hospital, but doctors were unable to revive him, the Changping district police said.

But there are several gaps in the police narrative. By the time Lei was admitted to the hospital at 10:09 p.m., he was already dead, a doctor at the emergency services unit at the Changping Hospital of Integrated Chinese and Western Medicine, where the police took Lei, told state-run China Central Television (CCTV).

The doctor who handled Lei's case said that the right side of his body and forehead were bruised and a small quantity of saliva mixed with blood was found in his mouth when he was admitted. Only an autopsy could determine the real cause of Lei's death, the doctor said.

Lei's family says they learnt about his death at about 1 a.m. on May 8. When they went to see Lei's body at the hospital at 4:30 a.m. his arms and head were covered in bruises, they said. The police guarding the corpse did not allow them to take a photo of Lei's body, the family said in a statement.

The district police promised to allow an independent agency to conduct an autopsy.

The family insists it must be done by an institution that is not under the influence of Changping District police, said Chen Youxi, the family's lawyer. The family is also demanding that an investigation team led by prosecutors from another district or city handle the case, and is asking for the police in Changping to submit all the evidence including surveillance camera footage to this third-party.

Broken Cameras

Finding evidence to clarify the chain of events that led to this murky death has proven to be challenging. There are two sets of surveillance cameras installed on the building opposite to the massage parlor that could have captured what had happened on the night of May 7, an employee working at a real estate agency in the neighborhood said. However, repair workers who came to check the cameras the following day had said these two cameras were broken, the property agent said, and "nothing had been recorded for several days."

Lei's classmates had requested for the footage from a surveillance camera at the entrance to the building where the spa was located on May 9, but those managing the property had told that this camera was also out of order, Lei's father-in-law, who wished to remain anonymous told Caixin.

"People told us that police officers had visited the property management office in the morning," the father-in-law said.

Lei's family, in their statement, ▸▸

raised other questions about how the police had handled the case. They said the police had deleted Lei's call log and any records of his whereabouts on his iPhone on the day of his death and two days prior to that. The entries posted by Lei on his private Wechat, a social network, on the day of the incident and a few days prior to that, had also been deleted, his family said.

Televised Accusations

Police took to state television to quell doubts surrounding the incidents that led to Lei's death.

There were no surveillance cameras installed in the area where the raid occurred, said Xing Yongrui, a deputy head of the Dong Xiaokou Police Station in Changping District, in an interview with CCTV on May 11.

The police will release video clips of the raid, recorded by him and his team using mobile phone cameras "when necessary," he said.

The officer also denied accusations that the police had deleted data from Lei's phone saying they did not have the technology to unlock an iPhone.

Xing, who led the raid at the massage parlor, said Lei had bitten an officer while resisting arrest.

While he was being taken to a police station, Lei had jumped into the front passenger seat and kicked the driver, forcing him to pull over, and then jumped out, Xing said in his TV interview.

Officers caught him and handcuffed him before putting him in to another vehicle, he told CCTV. The officers noticed Lei "wasn't feeling well," a little later, said Xing.

Several witnesses who live near the massage shop told Caixin that they saw a young man being chased by several men in civilian clothing, and that he shouted for help before being wrestled to ground by two men.

One of the men stepped on him to pin him down, one witness said. "He was lying face down and handcuffed and his forehead was bleeding," a witness who asked not to be named told Caixin.

When the Caixin reporter showed these witnesses a photo of Lei, they all identified the young man as Lei Yang.

Internet users left thousands of messages on Weibo account run by the Changping district police and other social media sites calling for an independent investigation. Some slammed the police for launching a media trial of Lei, even before an autopsy was carried out.

Another officer, Gao Chunzheng, said in an interview with CCTV that DNA tests on samples of semen found on condoms recovered from the massage parlor confirmed that Lei had engaged a sex worker.

A female suspect in custody appeared on state-run Beijing Television, also on May 11, and she said Lei had paid her 200 yuan for sexual services.

Police have gone to extreme lengths to frame Lei as someone soliciting a sex worker to shame him, an Internet commentator who went by the name Xingdongren wrote in a blog on May 16.

"But even if Lei Yang paid for sexual services, it is not an act that needs to be labeled as 'evil'," the blogger wrote. "What constitutes a real evil is that crooked police officers have broken the law in the name of justice and done something immoral for the sake of upholding moral standards."

The police public outreach campaign has failed to dispel doubts over the handling of Lei's case, said Ceng Ying, a columnist for Caixin.

"That is because officers are not trying to address public concerns, but instead they have sought to paint Lei in a negative light to justify the use of excessive force and to take away the focus from the way he was treated," said Ceng.

Lei's family said they filed a case with Beijing Intermediate Procuratorate Court on May 17 asking the prosecutor's office to investigate the officers involved in the raid. Lei's lawyer says the police have abused their power, caused grave bodily harm to the deceased and had falsified evidence.

"The officers had no proof that Lei Yang had paid for sexual services, but they detained him and beat him up, which caused his death in less than 50 minutes," his family said in the statement they submitted to the prosecutor's office.

"A young, healthy person has died as a result of police abusing their power," the family said. ■

PRIVATE FINANCING

Blood and the Borrowers

Frustrated lenders who backed a now-subdued building boom included a retiree who mowed down schoolchildren to get attention

By staff reporter Kong Xiaoqi

Private financing schemes have long fueled building projects – even property development booms – in cities across China.

But a retired prosecutor who intentionally plowed his BYD SUV into a group of schoolchildren February 29 in Nanyang, in central China's Henan Province, has exposed a dark side of that city's private financing network.

Ma Gaochao, 60, reportedly lost 12 million yuan in a real estate financing scheme before venting his frustration by steering into secondary school students at a campus gate. A 16-year-

Retired prosecutor and disgruntled private lender Mao Gaochao breaks down at an April 25 hearing where he was accused of steering his vehicle into a group of schoolchildren, killing one old girl died, and 11 students were injured, two of them seriously.

Ma fled but after being caught told police he had "intentionally" mowed down children to focus a public spotlight on the developer that drained his bank account, police officer Huang Shaofan told Caixin.

Hours before the incident, according to Ma's testimony to the court, he had spoken by phone with Bi Yingxian, a local property developer. Bi borrowed 12 million yuan from Ma in early 2015 but had apparently reneged on an agreement to repay him by September along with 240,000 yuan in interest.

Money borrowed from Ma was part of the more than 1 billion yuan raised by Bi and his business partner Wen Ruilin to finance new construction through their co-owned Daxin Property Development Co.

Daxin was launched in 2010 and started borrowing money from private sources three years later, company sources told Caixin. Their promises of high returns eventually pushed the amount owed in interest payments alone to 200 million yuan a year, the sources said.

Several business contracts between Daxin and its lenders obtained by Caixin include company promises of up to 2 percent monthly interest, a rate well above the typical, fixed term bank deposit rate of 1.35 percent per annum. Daxin employees who successfully recruited new lenders received bonuses, sources said.

But Daxin has yet to complete a single real estate development project, according to a Caixin check of city government documents. The company says it's currently working on five projects and is preparing to start three more.

After the school attack, Caixin has learned, Nanyang authorities launched an investigation to determine whether Bi and Wen used Daxin to run an illegal Ponzi scheme. Bi has been detained but as of late May had not been charged with a crime.

The probe began after an April 25 court hearing where Ma pleaded guilty to endangering public safety, which is punishable by up to life imprisonment. A verdict is pending.

The retired Nanyang People's Prosecutorate cadre told the court he ran over children to "stimulate public concern." He then asked authorities to investigate Bi and Daxin for what he called fundraising fraud.

Unrest in Nanyang

Ma's request was more than well-received. In fact, in addition to probing Daxin, city authorities said ▶▶

that as of April they had launched 100 investigations into allegedly illegal fundraising involving tens of billions of yuan.

It's not the first time Nanyang's real estate industry has been the focus of investigations. A June 2014 report by state-backed CCTV television claimed Nanyang construction companies hired by local property developers had built apartment buildings with substandard steel.

The TV report triggered protests by homebuyers who demanded compensation or refunds from developers, and prompted the city government to demand that builders halt all construction projects. And since then, according to a property company manager who asked not to be named, fewer than 10 new housing complex projects have been completed in Nanyang.

The upheaval threw a wrench into property developer fundraising operations. As a result, some developers failed to repay private lenders, sparking new protests.

"Protesters trying to get their money back are always blocking roads," said a Nanyang resident.

Most Nanyang developers had been using private financing, rather than bank loans, to fund projects since the start of a local building boom in 2011 – a boom that ended abruptly with the CCTV report.

In addition to apartment complexes, local developers erected gleaming office towers and luxury hotels on lots where old neighborhoods stood before razing crews arrived. New apartment prices soared, rising to 5,000 yuan per square meter in 2014 from 3,000 yuan two years earlier, according to the city government.

Private financing apparently triggered the building boom. A city government report said "as of 2008 almost none of the city's developers had applied for property development loans (from banks) since the companies are small and lack financial capacity."

According to local real estate agents who spoke with Caixin, developers also favored private financing over banks to avoid city's bureaucracy. Bank loans cannot be obtained without government licenses and certificates that take too long to get, they said.

A property manager said his company's 2013 application for construction and sales licenses has yet to be processed.

"Most Nanyang developers borrowed money from private lenders," a local property firm source told Caixin.

Bi told his employees one month after the CCTV report that the company had gotten into financial trouble, said company sources. Nevertheless, Daxin's fundraising activities continued.

Lenders who supported the company after the CCTV report are among those now waiting for overdue payments. About 20 people interviewed by Caixin said Daxin borrowed money from them in the second half of 2014 and that the company has not made an interest or principle payment since October 2015.

Tattered Reputation

Ma wasn't the first Daxin lender to complain to the government. But previous complaints were passed from one official to another, according to one frustrated lender, and no one took action.

Some creditors filed and won lawsuits against Daxin, yet so far have not gotten their money. A court document for one lawsuit said the company "has no assets for the execution" of payments.

"Daxin has no money at all," said one city official who asked not to be named. "Winning a lawsuit is useless."

Many lenders who spoke with Caixin said they previously assumed Daxin had strong backing from the government, and that their money was ultimately safe. Contributing to this impression were government announcements and state media reports.

For example, in 2013 and 2014, Daxin and Bi reportedly won awards from the Henan government. And the government-backed Nanyang Daily and Nanyang Evening News published several articles promoting Daxin projects.

Daxin employees also fueled the idea that their employer had good government connections. Daxin lender Wu Jianguo said he learned about the company from a friend who worked for the city's tax bureau.

The friend persuaded Wu that Daxin has "government support" and "will never lose money," he said. "How can a government-backed project commit fraud?"

Sima Heng, director of a Nanyang government office that focuses on preventing illegal fundraising activities, said in fact many government officials themselves have participated in private fundraising schemes.

For example, last year a district prosecutor's office director named Zhao Xinqiang was probed by the

Communist Party's disciplinary agency in Henan for embezzling government funds that he used to invest in illegal fundraising schemes. No detail about the investigation has been released.

At his hearing, Ma told the court Daxin had borrowed 3 million yuan of his own money and 9 million yuan that he borrowed from a friend.

Sima said his office has received many reports about problems at Daxin, but that the company's situation is "complicated." The government is now deciding whether it might be "better to save Daxin than kill it."

So great is the level of frustration inside Nanyang's community of private lenders that many actually voiced support for Ma in the wake of the school attack.

For example Song Lili, who may have lost hundreds of thousands of yuan he loaned to Daxin, said he sympathizes with Ma's decision to use extreme action as a springboard for exposing Daxin.

And a Nanyang police official who declined to be named said in fact what Ma did with his vehicle should not have been surprising. "If it wasn't Ma, it would have been someone else," said the official. ■

Leading Taiwan and Standing Up for One China

Hu Shuli is the editor-in-chief of Caixin Media

The head of Taiwan's Democratic Progressive Party (DPP), Tsai Ing-wen, became the island's new leader on May 20 in a regime change that certainly poses new challenges for authorities and people on both sides of the Taiwan Strait.

The mainland and Taiwan, through the "92 Consensus," benefited enormously via trade cooperation, cultural exchanges and people-to-people interaction during the eight years that the Kuomintang Party held power, before DPP won the January election. Nearly 10 million cross-strait trips by mainlanders and Taiwanese were recorded last year, while bilateral trade rose to nearly US$ 200 billion in 2015.

Authorities on both sides have also extended friendly relations by expanding direct airline flights, shipping links and postal services. There have also been more collaborative efforts aimed at improving quarantine oversight and fighting crime.

Handshakes shared during a historic meeting between Chinese leader Xi Jinping and Tsai's predecessor Ma Ying-jeou in Singapore last November – the first such meeting in more than six decades – demonstrated to the world their wisdom and resolve to build on common ground and patch up differences. Since then, cross-strait relations have been warmer than ever.

But the island's new administration has raised concerns among some mainlanders who wonder whether the ruling DPP will change cross-strait policies in the future. Ma might share these concerns, as he reportedly told Tsai the "bridge" he helped build to facilitate cross-strait dialogue would be open to anyone who succeeds him – but only if the new leader obeys "traffic rules."

A fundamental rule is the "92 Consensus." It says that both sides recognize Taiwan and the mainland as two parts of "one China," and that each side has an independent understanding of what that means. Without that consensus, the relationship's mutual trust element would be in shambles, and both sides would find it hard to maintain momentum for cross-strait dialogue and cooperation.

We predict mainland authorities are likely to take a more proactive approach toward supporting the relationship by addressing issues and setting an agenda – as well as setting the tone – for future dialogue. They're also likely to be more results-driven.

In doing so, Beijing wants to send a clear message to leaders on the other side of the Taiwan Strait that obeying the "traffic rules" is a prerequisite for moving cross-strait relations forward. No one should take for granted the level of reconciliation reached over the past eight years.

Trade across the Taiwan Strait will continue serving as the cornerstone for cross-strait relations, regardless of what happens next. The ruling DPP, for its own self-interest, might try putting the brakes on cross-strait relations.

For the sake of the Taiwanese economy, political maneuvering is not desirable at the moment. The island's gross domestic products growth rate declined 0.84 percent year-on-year in the first quarter 2016, marking the third quarterly contraction in a row. The Chung-hua Institution for Economic Research in Taipei expects this year's growth rate to be the second lowest since the 2008 global financial crisis. Exports contribute to 70 percent of Taiwan's GDP. The mainland and Hong Kong last year imported 40 percent of those exports by monetary value.

Some economic analysts in Taiwan say the island's and mainland's economies are liked conjoined twins. Taiwan's economy is trade-driven, as its factories supply high-tech firms worldwide. The mainland is Taiwan's biggest trade partner and investment destination. Any political turmoil on the island would strain cross-strait cooperation in trade and manufacturing, which in turn could turn people in the island against DPP's cross-strait policies.

Mainland authorities should keep an open mind and try to reach out to those in Taiwan who cherish peace. Taiwanese who believe in the one-China policy should also be reassured that they will have full access to mainland markets and mainland-led international initiatives, which are certain to help the island prosper.

It's true that cross-strait relations suffered a setback as a result of a March 2014 campaign against the Cross-strait Service Trade Agreement in Taiwan. This was despite the mainland government offering Taiwan greater concessions than it had offered any other trade partner before, when the pact was signed in June 2013.

The agreement, which Taiwan's

legislators have yet to ratify, would not only give the island's service providers wider access to the mainland but also promote integration of complementary economies. After all, the service industry provides more than 60 percent of the island's jobs.

Given current political sentiment in Taiwan, the agreement is unlikely to take effect any time soon. Mainland authorities can circumvent the deadlock, though, by pushing ahead with key projects that are in the interest of the Taiwanese public. In so doing, the mainland would show itself flexible and interested in in the well-being of people in Taiwan, as well as national unity while keeping a wary eye on the ruling DPP.

Cross-strait relations have certainly entered a new era. Mainland authorities have so far reacted in line with the expectations of people on both sides of the strait. We may see some turbulence ahead, but any backtracking on major agreements upholding the relationship is unlikely as long as all continue to promote cross-strait trade ties. ■

Amid New Sino-Russian Ties, History Is Twisted to Serve the Present

Officials in both countries are eager to build a new economic relationship, meaning better days are remembered and sour times swept under the rug

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From forging a comprehensive strategic partnership to signing trade deals worth billions of dollars, the warming relations between China and Russia oblige both sides to drop age-old grievances to focus on friendly times in the past that can be called upon to serve the present.

The two governments are calling 2016 the China-Russia Media Exchange Year, and a new narrative is taking shape to highlight equality and mutually beneficial exchanges in their early encounters. Many Chinese nod knowingly that this is another campaign mockingly called, "History builds the stage for the economy to run the show."

Back in the 17th century, the two empires, China in the east and Russia in the west, emerged from the ruins of the Mongol domain and pushed into sparsely populated Northeast Asia. Intermittent clashes between Russian settlers and the natives, who were subjects of the Manchu emperor, prompted the Manchus to lay a series of sieges to a fort at Yakesa, called Albazin in Russian. In 1689, the two sides negotiated and signed a treaty at Nerchinsk, a trading post. This was the first Western-style treaty between China and an occidental power, and it employed Latin as the language of diplomacy, with the help of two Jesuit missionaries serving the Chinese imperial court.

A second treaty between the two neighbors was signed at Kiakhta in 1728, which demarcated the borders and set the rules of commercial exchange in the same amicable atmosphere as in Nerchinsk. Afterward, trade in tea and fur flourished. Merchants from Shanxi Province in northern China built the financial infrastructure for this east-west commerce. Seen in this perspective, traditional China's mercantilism in what was once called Inner Asia was sophisticated, outward-looking and bringing prosperity to all trading partners.

All this rhetoric is fine, but a selective reading of history cannot avoid looking at the unpleasant sequel to this glowing spirit of equality and good business sense that vanished in the 19th century. Exploiting the chaos of the Anglo-French expedition in 1858-1860, Russia annexed substantial territories at China's expense. Scholars intent on exposing the dark side of this history have been dismissed by the pugnacious Global Times as "quixotic pedants."

The humiliation of ceding territories in times of national weakness has been branded into the psyche of the Chinese people, and for this reason the marathon negotiations for border treaties starting in the 1990s had to be kept under wraps. Only in recent years has the public been informed that the process was concluded in 2008.

In their eagerness to make history a handmaiden of the present, news outlets step into a field still strewn with landmines. Last year, officials in the northeastern province of Jilin, celebrating the erection of new border posts, claimed to have taken back 4.7 square kilometers of land lost to Russia during the Qing Dynasty. This whipped up a brief moment of excitement as major news websites gave the development prominent play. The Russians, ever sensitive to signs of Chinese revanchism, challenged the claim, and the Jilin officials retracted the story, clumsily blaming sloppy journalism for the mistake. The incident is an object lesson that the past is never dead and the hapless media is but a pawn in the game.

China's foreign policy experts, wary of these fraught relations, would prefer to turn a page on the past – friendly or otherwise – and develop new ties based on economic cooperation and a shared vision of global governance. Old injuries can flare up with the slightest provocation, so why take the risk? The ghost of the past seems to have a mind of its own.

The stage history builds for the economy to run the show is inherently rickety. As Victor Hugo aptly put it: "Friend" is sometimes a word devoid of meaning. "Enemy," never. ■

What Macroeconomists Are Missing

Current economic models are out of touch with reality and it is time for a new approach that looks at the link between national politics, growth and globalization

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There are two main lessons that we can draw from the 2007 to 2009 global financial crisis: the failure of mainstream economics to predict and solve the crisis, and its inability to explain the rise of the Chinese economy. There is of course a simple explanation for this blind spot. Mainstream theory, especially quantitative economic models, makes too many assumptions on the political factors involved. The current generation of Chinese economists, trained largely in these traditional theories, needs to distinguish between the ideology of free markets and the ground reality that politics drives economics. The two are inseparable, but both ignore each other at the peril of systemic failure.

Mainstream economic and finance theories failed to predict the financial crisis and devise solutions for it because their underlying assumptions about many complicated issues related to the real world were incorrect. First, it is now well known that techniques used by central banks and finance ministries in all major markets to predict growth trajectories, like the dynamic stochastic general equilibrium models, completely ignored the existence of the financial sector, assuming that financial assets and liabilities net to zero. This crisis proved that many models of risk management currently in use are, at best, flawed, and, at worst, useless in the face of "black swan" tail events.

The next mistake was to concentrate on risks that were defined as measurable volatilities, while ignoring uncertainty and unknown factors. For example, the former Governor of the Bank of England Lord Mervyn King, confessed in his new book, The End of Alchemy, that monetary theory had failed to produce a good analysis of money and ignored the element of "radical uncertainty" in the world of finance.

The third flaw, common to organizational theory and macroeconomics, is that specialists and departmental agencies know more and more about less and less and are unable to connect the dots to view the economic and social system as a whole. This fragmented view creates a "silo effect" that assumes that your point of view is the best and the problems caused by your actions are really due to the faults of others. Policy makers ignore the spillover effects of globalization on national policies, and there is no collective action at the global level because of geopolitical rivalries. This partial view means that economists and fragmented state agencies completely miss the reality that it is the interaction between the parts that actually determine systemic outcomes. Policies that focus on domestic objectives, while ignoring their global impact and vice versa, have made these measures ineffective and detrimental to the global economy.

This is particularly true of monetary policy tools adopted by countries that are widely used as reserve currencies. For example, large stimulus drives in several big economies increased the volatility of global capital flows and put pressure on exchange rate stability. Unconventional monetary policies by the U.S. Federal Reserve, the European Central Bank and Bank of Japan that pushed interest rates to zero and even negative levels have added to the complexity of managing the yuan and affected China's national development policies. Efforts to stabilize the yuan are affected by very low interest rates in the United States, because any attempt to use interest rate policies could trigger large capital flows leading to more volatile exchange rates. At the same time, the Fed is aware that if it tries to raise interest rates, the dollar would become stronger, slowing down economic recovery in the United States.

Political obstructions to the use of fiscal policies have shifted the entire burden of dealing with growth on monetary policy. As interest rates fall to zero or negative levels, long-term growth prospects have fallen toward levels that can trigger another global recession.

Economics in the time of Adam Smith stressed on the importance of the political economy, where political goals were inseparable from economic mercantilism. But the belief that ▶▶

free markets could solve everything is flawed. Financial liberalization and globalization as ideologies may fit some countries, but they are disastrous when applied to the world as a whole. ■


Photojournalist Fritz Hoffmann on assignment for National Geographic magazine with the party chief of a village on China's border with Myanmar

Fritz Hoffmann

Bearing Witness to the China Story

Acclaimed photojournalist Fritz Hoffmann talks about the challenges of chronicling the country's growing economy and changing society

By Sheila Melvin

In 1993, Fritz Hoffmann was a young American photojournalist ready for a new adventure. He had honed his picture-making skills while hitchhiking across the Pacific Northwest, harvesting crabs in Alaska, and working at newspapers in West Virginia and Tennessee. From a base in Nashville, he first became a breaking news photographer, covering events like the Oklahoma City bombing for Newsweek. Though business was booming, Hoffmann "loathed the media scrum" this work entailed. He shared his craving for something more with his agent as a TV in her New York office droned in the background. It was a story that featured then-President Bill Clinton discussing trade with China. "Go to China," Hoffmann's agent suggested. "That'll be a story you can photograph for a long time."

Hoffmann took the advice, moved to China in 1995, and eventually became the first foreign photojournalist to be accredited to live outside Beijing since 1949.

"When I first went to China I knew little about it," said Hoffman. "Everybody said good luck getting a journalist credential – they didn't give it to photographers and they didn't give it to freelancers. Shanghai was still considered a hardship post and I was on my own dime."

He has gone on to shoot in every Chinese province and municipality for a range of top international publications that include National Geographic, The New York Times, Fortune, Business Week, Helsingin Sanomat, The Independent, and L' Express. He lived in Shanghai until 2008 and returns regularly from his current base in California. At present, Hoffmann is preparing for his 12th National Geographic project in China.

The following are excerpts of Caixin's interview with Hoffmann.

Caixin: What was it like when you first arrived in Shanghai?

Hoffmann: I had to navigate the culture, customs and politics alone. I was trying to get my accreditation and I was constantly hassled for taking pictures. But I loved being there then. It was the time of my life, the sunshine days.

What did you do in that initial period?

Shanghai was a big construction site, and I'd bike around the Pudong (district) all day taking pictures. I had a goal and a hobby to go up on every skyscraper under construction in Shanghai. I would bike out, knock on the gate, talk my way in, go up and make some pictures.

One day, for example, I got a call from New York – they're doing a story on migrant workers and needed a photo the next day. So I went to the Jinmao Tower , talked to the site supervisor in my best Mandarin, told him I was doing a story for Business Week, and he reaches into a drawer and gives me a badge and a hard hat and says, "Be careful." Just like that! Imagine being in New York and walking up to the Empire State Building under construction and knocking on the door and asking if you could go up – that's what it was like. It was pretty limitless, if you could deal with it, if you could get past security, you could be on top of the Jinmao! I spent the whole day up there – the workers weren't roped in, I wasn't either. Ten years later it took me a year to get access to the top of the World Financial Center. You can measure the change with the red tape.

(Those days) you get a call, fly somewhere, evade detention, make the deadline. I used to take unprocessed film to Hongqiao Airport and find someone to take it to Hong Kong.

What themes did you cover and do European and American editors look for different things?

It is very different how China is reported. The American sensibility versus, let's say, the French. The French have a different understanding, a more romanticized view, and they probably know more about China; they had a different

A farmer from Zhejiang Province at work on the Jinmao Tower in Shanghai as a scaffold erector stands on the 87th floor where the famous Cloud 9 lounge is located today

Fritz Hoffmann

engagement with China, and they have a different pace and expectations. America is much more about mass consumption, exporting the capitalist model. And, traditionally there has always been a greater interest in photo-reportage in Europe.

How was that reflected in your assignments?

The difference in assignments came down to whether you were working with a locally based journalist or had an assignment from somebody in Europe or the States. Editors from outside China would often say the picture had to have 'Chinese characteristics,' i.e. show China in a very obvious way. They'd ask, can you get a picture of Pudong, for example, with traditional Chinese architecture? No, it's practically impossible! And, what's the point?

You want to be ahead of the curve, but how? Where is the edge, where is the fringe, and how do we get there? I'm not interested in telling the same stories over and over.

Do you need an affinity for, and an understanding of, the culture to be on that leading edge?

If you are very perceptive and connected, you can find things anywhere. It really comes down to time, especially these days in journalism and news, everything is just so immediate.

But if you want to tell a story you need to know how to read and speak Chinese otherwise you are not getting the Chinese perspective, and are very limited. When you start searching on the Internet in Chinese, for example, it's like a whole new world. And understanding the nuances of the language is huge… I am just amazed by the young foreigners now who go to live in China and can speak very good Chinese. That says something about the change.

And one recent thing that has struck me is that Chinese are living in their own clothes now. It isn't just Gucci, Prada – now they are more secure with themselves and who they are and their own identity.

Do you ever consider the overall impact of photojournalism on how China is perceived in the outside world?

Looking back on it, I was basically a propaganda photographer. My photography played a role in promoting China's grand plan of constructing Pudong as an icon of "new China." Pictures were needed to propagate that "new China" message and, knowingly or not, I was the photographer supplying that demand. That description may even be fitting of many of the pictures made elsewhere that I supplied to illustrate China's economic growth.

I always did try to make real pictures, but those were not always chosen for publication. The reason may have been that they required too much explanation, they weren't a ▶▶

quick read.

So I was operating in a place between the message that the Chinese government wanted to send and the photography used as illustration that the Western press was willing to publish, often from a biased or limited point of view.

What kind of affect did being a foreigner have on your experience?

Opinions and points of view are often influenced by direct experience. That's why I tried to suggest to the Foreign Affairs folks (at the bureau in charge of foreign journalists), if you try to control the press they are going to feel they have to go around you. Why not let it happen – don't be too paranoid. The odds are there will be little that will have that big a negative effect.

But, once you are accredited, you are flagged. I went to photograph the AIDS epidemic in Henan around 2000. I landed in Zhengzhou (the provincial capital), I'm coming down the escalator and there's a guy with a video camera right on me. I got in a taxi, he pulled up behind us, I told the taxi to circle back to the airport. We lost them, but then we are driving down the highway and this car's behind us, the taxi driver asks, "Are you guys in trouble?" He was sweating. Finally, we dumped them and went to a different hotel, got up really early, got a different taxi, and there's this car behind us – the same one. So I said forget it, went back to airport. Tried again by train. We were followed again. This sort of thing happened often.

So the difficulties – you can't imagine. Detention was expected. Not only are you flagged as being a journalist and looked on with a lot of suspicion, but also a lot of Chinese respect journalists and want to tell you their story. And sometimes you have to say no, I don't think it is a good idea for you to tell me – I don't want to get you in trouble. (That trouble often happens on a local level.)

China is probably one of the most difficult places in the world for a journalist to work. After being there so long and working in these conditions, you go to a different country like Mexico, where I lived for two years. That's difficult because the drug dealers may have it out for journalists reporting their story, but it's not as difficult as China, especially after 1989 and in the run-up to the Beijing Olympics.

What's your plan for your photo archive?

A waitress takes a break at a mall for luxury brands on Nanjing Road, a shopping area in Shanghai

At some point a photographer will have to consider how to archive their work. A collection on a single topic, like China, has value. I have about 150,000 color images made in China from 1994, up until now. Some 130,000 of these are color transparencies I shot up to 2011, before I switched to digital. I feel that my China work belongs in China. That is where it can be most appreciated and get the most use in the years to come. So my idea is either to sell the archive by auction or find somebody who can purchase it and gift it to an institution that has the environment to provide for archival longevity and allow access for academic research and historical study. That could be a museum, or a university. And then, depending on the sale, I hope to launch a photography foundation to support Chinese photographers' work on China and any China-related subject. I think there is a strong need for a that. With that I could look forward to being involved with photography about China in the next 20 years. ■

Sheila Melvin is a newspaper columnist. Her latest book, Beethoven in China: How the Great Composer Became an Icon in the People's Republic, co-authored with Jindong Cai, was published by Penguin Books





The Tumultuous Link between Pop Music and Politics

Popular Music is a barometer of social change in modern China, surviving periods of censorship and political upheavals

Hsien-Yao Kong

During my college years in Taiwan, in the late 1970s, boys who were good at singing while playing guitar were idolized on campus. Although I envied these amateurs, I didn't realize at the time, that pop music served as a barometer of social transitions in modern China.

Compared to classical and opera music that was appreciated by intellectuals and the elite, pop music, with its catchy melodies and lyrics that reflected on real life, was a genre popular among the masses. It had a wide appeal although many traditional musicians despised it.

The origins of Chinese pop music can be traced back to 1929, when Li Jinhui, a composer and songwriter, penned a popular song, Drizzling Rain, for his Bright Moon Song and Dance Troupe in Shanghai. The song combined Western jazz with Chinese folk melodies and had poetic lyrics. It was an immediate hit in Shanghai, the country's cultural hub, known as "the Paris of the East." Li wrote hundreds of hit singles for famous pop singers including Li Xianglan, Zhou Xuan, Yao Li and others. Some songs remain popular even today.

Shanghai was a safe haven during the late 1930s and 1940s during the Sino-Japanese war and the civil war that followed. For many people caught in the conflict, tender songs about love and peaceful lives sung in the metropolis offered a temporary escape.

When the civil war ended in 1949 and members of the Kuomintang party retreated to Taiwan, many Shanghai artists fled to Hong Kong. The huge influx of talent and capital turned the British colony into the new center for Chinese pop music over the next two decades.

Popular songwriters such as Yao Ming and Chen Dieyi attempted to replant the uprooted music tradition from Shanghai in their new home, Hong Kong. But poetic lyrics sung in Putonghua failed to find an audience among locals, who mostly spoke Cantonese.

Hong Kong's status as the center for Chinese pop music started to erode in 1967, when several businessmen and cultural figures fled the city after a series of riots.

Many hopped over to Taiwan turning it into the next hub for Chinese pop. Musicians and lyricists from the mainland found it easier to build an audience for their work in Taiwan where Putonghua was the dominant language. Cultural authorities on the island had also started to loosen their grip after a bout of strict censorship on pop songs, creating a more liberal atmosphere.

This censorship regime dates back to 1947 when the Kuomintang government banned pop music on the mainland fearing the soft melodies might erode soldiers' morale on the battlefield. This restriction was introduced to Taiwan when the party fled to the island in 1949. Authorities in Taiwan axed dozens of popular songs from the mainland containing any hint of criticism of the ▶▶

Kuomintang government. Songwriters were under pressure from censors who meticulously combed through lyrics. In 1955, Taiwan authorities issued a regulation clamping down on broadcasting or performing any of the banned songs in public. However, some records continued to be sold secretly.

The Publication Law introduced in 1973 in Taiwan identified 10 criteria for a song to be banned, which include having "dejected, vulgar and obscene" content, and "inaccurate reflections on reality." In 1974, a special team was set up in Taipei to censor songs. Between 1979 and 1987, the team held 320 meetings to review more than 20,000 songs. About 930 of them never made it past the censors. The ban lasted for over three decades, until it was scraped in 1987.

The fate of a song, however, was closely linked to the political undercurrents of the country at any given time. A good example for this is When Will You Come Again, a song yearning for a lost lover, penned by screenwriter Huang Jiamo in 1937 with music from composer Liu Xuean. The song was first sung by Zhou Xuan, one of the most famous singers in Shanghai and became an instant hit. In 1940, the Japanese version of the song started gaining popularity among Japanese soldiers invading China. It was quickly banned by Japanese generals who said it had a hidden message that could be interpreted as a cry by Chinese citizens urging their army to fight back.

At the tail end of the Second Sino-Japanese War in 1945, the Japanese military altered its lyrics to mean "celebrate the arrival of Japanese troops," and aired the song in Shanghai and Nanjing. Angered by this move, the Kuomintang party, in power at the time, ordered the song off the airwaves.

The ban was not lifted after Mao established a new government in 1949. The song's composer, Liu Xuean, was accused of being an anti-revolutionary and sent to a labor camp during the Anti-Rightist Movement (1957-1959), when hundreds of thousands of intellectuals accused of having right-wing ideas were persecuted. The song was labeled as a work of decadent bourgeois art during the Cultural Revolution (1966-1976).

Amid the strict censorship, authorities in Taiwan and on the mainland were trying to use music as a tool to boost patriotism and radio stations were told to play a certain number of patriotic songs each day.

The clampdown on popular music only served to increase the demand for it. As Taiwan's economy took off and restrictions eased in the 1960s, pop songs with old Shanghai melodies started to become popular again. Several pop icons emerged in the following decades, including Teresa Teng, Feifei Ou-Yang, Judy Ongg and Feng Feifei who had a huge fan base on both sides of the strait.

In 1978, Teresa Teng sang When Will You Come Again for her album A Love Letter, which became an instant hit in Taiwan, Hong Kong and on the mainland.

Restrictions on the local music scene in Taiwan created a vacuum for foreign songs to thrive. Local musicians adapted elements from Cantonese music from Hong Kong, and imports from Japan and the United States were popular among locals. This formed the foundation for the music industry's revival in the 1970s.

Pop music has now grown into a US$ 1 billion industry in Taiwan. Another niche music genre has emerged from university campuses. These "campus folks," have become a symbol of Taiwanese music. But that is for another story. ■

Hsien-Yao Kong is an entrepreneur from Taiwan and the general manager of Shanghai Cyber East Tourism Industry Investment Co. Ltd. in Shanghai

Children walk through their partially demolished neighborhood at the location today called Lujiazui, the financial disctrict of Shanghai

GALLERY

CHRONICLING CHINA

Photos by Fritz Hoffmann

A Tibetan Kunlun Bird rests in the palm of railway worker Li Yingde as Li worked on the new tracks that carry the high altitude train from Beijing to Lhasa.

On their way to the weekly market, a man from the Lisu minority from the southwestern province of Yunnan pulls himself and his cow along a steel cable to cross the Nu River.

American photographer Fritz Hoffmann is known for documentary style narratives that portray society, culture, the environment and global economics. Hoffmann has been a contributing photographer for the National Geographic magazine recognized for his photography work in China. Here are some his iconic work shot across the country between 1994 and 2008, when he was based in Shanghai.

When waters of the Yangtze River are at the lowest point, Spring time, a rush of boat building ensues. These boat builders carry a steel sheet up the bank of the Yangtze River at the town called Fengjie. The plate will be welded in place on a boat that will be used for hauling sand. Much of traditional life on the Yangtze has been changed due to the construction of the Three Gorges Dam, the largest hydroelectricity project in the world.

(Bottom left) Bedridden from a stroke, Chen Guangxiao and his unemployed son, Lianshun, await the inevitable: eviction from the once-prestigious Model Workers Village in Shenyang, China's Tiexi Industrial District.

(Bottom right) In their cave classroom at Guanximao Elementary School in the northwestern province of Shaanxi, first graders trace Chinese characters in the air while learning to write them on paper.

REVIEWS

Dance
Napoli

The Royal Danish Ballet's lusty classic about a Neapolitan peasant couple struggling with natural and supernatural forces is an example of the Danish interpretation of Romanticism, according to critics. The three-act dance drama that premiered in 1842 has undergone many changes, with its heavy Christian symbolism replaced by a more secular interpretation of desire, compassion and joy. It is one of director August Bournonville's best works.

National Center for Performing Arts, Beijing, June 16-17

Music
Rhapsody and Revolution

Conductor Hannu Lintu and pianist Haochen Zhang join the NCPA Orchestra for a program of Russian classics including Tchaikovsky's The Tempest, Rachmaninov's Rhapsody on a Theme of Paganini and Shostakovich's Symphony No. 5 in D minor.

National Center for Performing Arts, Beijing, June 10

Music

Yin Chengzong in Concert

Piano virtuoso Yin Chengzong will play Scarlatti, Haydn, and Beethoven, as well as a selection of Chinese songs in one of his rare performances at home. Yin shot to global fame with the composition of the Yellow River Concerto, the country's signature piano piece. During the Cultural Revolution from 1966 to 1976 when Western music was banned, Yin found a way to continue performing by creating a piano-accompanied version for The Legend of the Red Lantern, one of the eight propaganda pieces that was still allowed on stage.

National Center for Performing Arts, Beijing, June 4

Theater

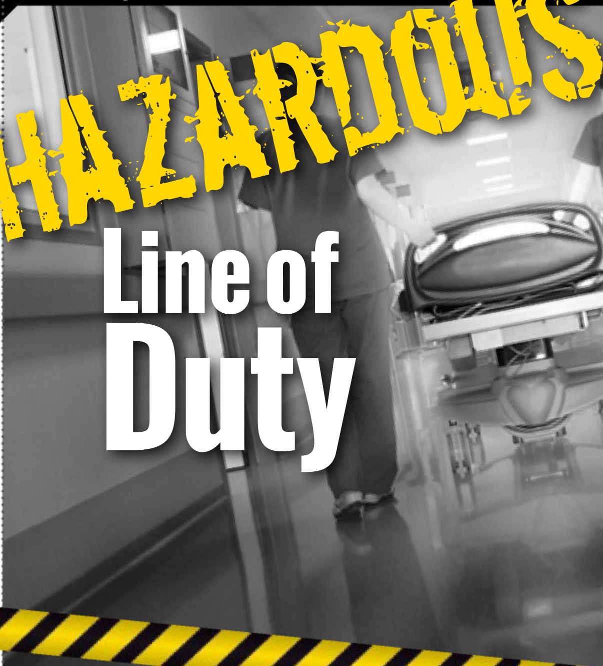
Common Ground

Yugoslavia – a country that no longer exists – perished in wars in the 1990s. It was the second time since World War I that Sarajevo was at the center of a seemingly never-ending conflict that lives on in the present. Many people fled to Berlin during the crisis in search of work and another life. But, how do these Berliners cope with the ghosts of their past? How do the children of the victims of war crimes who live alongside the children of the perpetrators interact with each other? In this project, director Yael Ronen from the Maxim Gorki Theatre in Berlin brings together performers who came to Berlin from Belgrade and Sarajevo, Novi Sad and Prijedor and asks "what is their common ground?"

National Center for Performing Arts, Beijing, June 21 - 22

HAZARDOUS

Line of Duty



A doctor was beaten to death in the central province of Hunan by a patient's relatives who accused the physician of being "inattentive." The attack happened less than two weeks after a dentist was slain in Guangdong, also by a patient claiming to have a grievance. There has been a wave of assaults involving medical professionals in recent years due to overcrowding at hospitals and lapses in doctor-patient communication, said Cao Jian, a researcher from Tsinghua University.

Family Pressure

Despite gains made in social acceptance, a UN survey found less than 15 percent of gays and lesbians in China chose to come out to their close family members. LGBT respondents said they experienced the worst stigma and prejudice from family members, and 84 percent of married homosexual respondents said they gave in to family pressure and agreed to marry a heterosexual partner.

Premier League Dreams?

Beijing-based conglomerate Recon Group has offered to pay 75 million pounds in cash to buy an English soccer club that recently lost its Premier League status, the company's chairman said. Aston Villa was knocked out of the EPL to the lower rung Football League due to the team's poor performance. The pending deal still needs a green light from each soccer league.

Parental Angst

A move to allow more students from less developed areas enter universities in richer provinces on the east coast has local parents worried. Parents in Jiangsu and Hubei provinces protested against government plans to increase the university admission quota for non-local students in 12 cities, which had "abundant higher education resources" according to the education ministry, saying the changes will put students in home provinces at a disadvantage.

'Bizarre' Reptile

Scientists in the southwestern province of Yunnan have unearthed two specimens of a crocodile-sized creature that lived 242 million years ago that could be the first known vegetarian marine reptile. The hammer-shaped skull of the creature named Atopodentatus helped it to feed on underwater plants, said Chun li from the Institute of Vertebrate Paleontology and Paleoanthropology in Beijing. Only a handful of marine reptiles, living or extinct, are known to be herbivores.