No. 6 | February 27, 2015

Chinese Media Digest
中国传媒摘

Launched in November 2014, the Chinese Media Digest presents a selection of critical issues drawn from news articles, blogs, and official speeches published in Chinese-language news media.

Prepared by Lauren Gloudeman (Analyst, Economics & Trade), Sabrina Snell, (Fellow, Economics & Trade), and Garland Ditz (Intern, Economics & Trade).

E-Commerce

Domestic Reforms

Chinese Companies Abroad

The U.S.-China Economic and Security Review Commission was created by Congress to report on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China. For more information, visit www.uscc.gov or join the Commission on Facebook.

Peer-to-Peer Internet Lending Platforms Boosted by Bank Partnerships

According to *Economic Information Daily*, a Chinese-language financial newspaper, banks and peer-to-peer (P2P) lenders in China are cooperating amid tightening regulations in the Internet finance sector. The trend among Internet lending platforms to seek fund protection and oversight from banks is well documented and gaining speed. Earlier this month, China Minsheng Bank (Minsheng) launched a system for safeguarding investors' funds on several online lending platforms, including Jimubox, RenRenDai, and Minshengyidai.

The article cites several other platforms that have recently taken the leap into strategic cooperative partnerships with major banks, including CreditEase with China CITIC Bank; RenRenDai, Niwodai, and Roadoor with the Shanghai branch of China Merchant Bank; Kaixindai with Bank of Jiangsu; PPdai with Bank of Changsha; and Jimubox with China Bank of Communications. Taken together, the P2P funds entrusted by these strategic bank partnerships surpass $1.5 billion, one industry insider told *Economic Information Daily*.

Because P2P funds do not count as capital and therefore can be considered revenue from providing intermediary services, said the article, banks are motivated to partner up as this arrangement becomes a new money-making channel to get around marketization of interest rates and squeezed bank profits. Moreover, the market is booming. In 2014, transactions on P2P platforms totaled $40.5 billion, more than double the amount in 2013, according to the article's citation of industry news site Wangdaizhijia. Yeepay, a dominant third-party payment service provider in the market with access to more than 400 P2P platforms, has alone cumulatively generated more than $1.5 billion. The article implies banks can expect to see immense profit growth by providing fund trusteeship services to Internet lending companies.

The *Economic Information Daily* article argues that, by partnering with banks, P2P lending platforms are becoming more institutionalized, and thereby more regulated, in China's rapidly changing financial sector. However, industry experts told *Economic Information Daily* that strategic partnerships between banks and P2P platforms might expose the traditional banking system to new risks inherent in Internet lending. In fact, before 2014, most banks refused to back P2P platform funds, citing lack of clarity on relevant regulations. More importantly, P2P platforms are prone to risks like shutdowns or misappropriation of funds. In January alone, 69 P2P lending platforms either went bankrupt or ran out of funds as a result of fraud or high withdrawal demand, down from an all-time high of 92 failed platforms in December last year.[1] In one instance, a Beijing P2P platform's default resulted in investors losing $149 million.[2]

But P2P platforms can't rely solely on bank partnerships to protect them from risks. Wei Wei, founder and chief operating officer of Jimubox, told *Economic Information Daily* that while bank trusteeship of funds allows banks to control and monitor financial flows, it doesn't protect platforms from risks derived from fraudulent behavior. For that reason, he said, actors in the Internet finance

[1] Qin Dexing, "69 Troubled P2P Lending Platforms Reported in Jan," China News Service, February 3, 2015. *http://www.ecns.cn/business/2015/02-03/153439.shtml*.
[2] Qin Dexing, "69 Troubled P2P Lending Platforms Reported in Jan," China News Service, February 3, 2015. *http://www.ecns.cn/business/2015/02-03/153439.shtml*.

sector are looking toward legal developments like information disclosure requirements and creditors' rights to help diminish risks.

China's central bank is taking some steps to reign in risky P2P lending, according to a report in Chinese news agency Xinhua. In mid-2013, Shanghai Credit Information Services Co., Ltd., a subsidiary of the central bank, established the Internet Finance Credit Reporting System (NFCS) to collect and share information on borrowing and lending on P2P platforms, including basic user information, loan application information, and loan provision and repayment information. NFCS aims to help P2P organizations understand to whom they extend credit, preventing fraudulent activity and other credit risks. Xinhua reported that as of January 1, 2015, the NFCS had access to information from more than 400 P2P platforms, up from 370 at the end of 2014.

- 银行分羹 P2P 百亿资金托管市场 (Banks Dip into the Billion Dollar P2P Fund Protection Market)
  Economic Information Daily, February 25, 2015
  http://jjckb.xinhuanet.com/2015-02/25/content_538772.htm

- 央行征信中心接入 P2P 平台已超 400 家 (People's Bank of China Credit Information Center Accesses More than 400 P2P Lending Platforms)
  Xinhuanet, February 25, 2015
  http://news.xinhuanet.com/fortune/2015-02/25/c_127515829.htm

Digital "Red Envelope" War Heats up during Chinese New Year Celebration

The most talked about event at this year's Spring Festival Gala was not the theme song—it was the electronic *hongbao*, or "red envelope,"[3] war between WeChat and Alipay.[4] Indeed, the images circulated online did not capture the gala performers but rather the numerous families sitting around the television shaking their cellphones in hopes of receiving an "e-*hongbao*." In partnership with CCTV's Spring Festival Gala, WeChat and Alipay each launched campaigns whereby users could shake their phones or enter a code word and "grab" money distributed virtually by friends, family, retailers, or the two companies themselves.[5] According to *People's Daily*, on New Year's Eve, WeChat users from 185 countries exchanged over one billion e-*hongbao*, a 200 fold increase over the previous year's campaign. Retailers partnered with WeChat distributed nearly $80 million (the largest single amount was just under $800). As for Alipay, users exchanged 240 million e-*hongbao* totaling approximately $638 million. At 8pm, the company recorded a peak of 883.2 million clicks per minute, and at 10:34pm, WeChat saw its maximum traffic with 810 million shakes per minute.

Other *e-hongbao* war statistics reflected current development trends in China and the accompanying evolution of holiday traditions. Alipay issued a ranking of the top ten cities with the highest number of users: Shanghai, Hangzhou, Beijing, Guangzhou, Wuhan, Shenzhen, Nanjing, Chengdu, Suzhou, and Wenzhou.[6] WeChat ranked campaign success according to province: Guangdong, Zhejiang, Beijing, Jiangsu, Shanghai, Fujian, Liaoning, Shandong, Shaanxi and

---

[3] As a part of Chinese New Year tradition, the older generation gifts money in red envelopes to the younger generation.
[4] Owned by Tencent, WeChat is a mobile messaging service with over 400 million users. Alipay is Alibaba's mobile payments platform with 300 million users.
[5] An individual e-*hongbao* could not exceed 200 RMB, and the total for the day could not exceed 8000 RMB.
[6] *Southern Capital News* 2015.

Sichuan.[7] While it is not possible to make a direct comparison of these rankings, it is clear that China's most populous and urbanized areas dominated the campaign; likewise, with the exception of Sichuan (Chengdu), Wuhan (Hubei), and Shaanxi, coastal cities and provinces also dominated. Alipay published data on the age and gender of its e-*hongbao* users. In a reversal of traditional *hongbao* exchanges where the older generation gifted money to the younger generation, 50 percent of users were born after 1990, 40 percent in the 1980s, and 3 percent in the 1950s and 1960s.[8] The gender breakdown revealed that exchanges tended to be across the sexes and that females received about six percentage points more than they sent.[9] Upon conclusion of the official Spring Festival holiday, commentators debated which company should be declared "winner" of the e-*Hongbao* War. Although WeChat users exchanged four times as many *hongbao* as Alipay users did, the latter averaged more clicks per minute during peak traffic times.[10] *People's Daily* called the e-*hongbao* campaign a "war without losers," explaining that Internet companies, media outlets, retailers, and the Chinese public all benefited from the night's activities.

Indeed, the campaign appeared to contribute to Tencent's positive stock market performance, at least in the short term. On Monday, February 23, the Hong Kong Stock Exchange's first day open following the holidays, the price of Tencent stock rose 3.8 percent, increasing the company's total market capitalization from $154.97 billion to $160.23 billion.[11] The *People's Daily* also heralded the e-*Hongbao* War as an example of a win-win partnership across disparate industries—Chinese Internet companies and the country's television stations (e.g., Wechat and CCTV or Alipay and Hunan Satellite TV). At the same time, the campaign served as a key advertising opportunity for Chinese retailers. According to a *Sina* poll, only 3 percent of the 3,950 users surveyed could not recall the name of the company that sent them a *hongbao* on the night of the gala. And while participants absorbed the content of advertisements, they also became familiarized with the country's mobile payments systems, gaining trust in its principal operators.

In light of Xi Jinping's ongoing anti-corruption campaign, it is not surprising that media reports and official notices discussed the connection between electronic *hongbao* and corruption. On February 21, 2015, the *China Discipline Inspection and Supervision New*s published a notice from Xiamen's Municipal Committee and Supervision Office urging cadres to "strengthen honest self-discipline and practice strict economy during the holidays, strictly prohibiting government officials from using modern logistics and express delivery, e-commerce, and other covert methods to receive e-gifts, prepaid cards, and WeChat *hongbao*, etc." The article contends that while e-*hongbao* might seem more anonymous than the traditional face-to-face exchange, the technology itself actually facilitated the tracing of illegal payments; the transaction, phone number, and cellular data traffic "all leave tracks." The article thus calls on the government's disciplinary mechanism to cooperate with telecommunications carriers and finance bureaus and to "screen data flows for suspicious activity."

---

[7] *Yangtse Evening News* 2015.

[8] *Southern Capital News* 2015.

[9] According to *Yangtse Evening News*, males sent approximately 52 percent of the e-*hongbao* while females received approximately 54 percent.

[10] It should be noted here that while Alipay still dominates the mobile payments market, WeChat controls the realm of social networking; the latter's mobile payments platform (Tenpay) has yet to capture more than 10 percent of market share. With the e-Hongbao War, both companies demonstrated that they could compete across sectors. Alipay leveraged the *hongbao*'s intrinsic social component to promote the company's core e-commerce services. WeChat meanwhile leveraged its massive social networking user base to make inroads into the mobile payments market.

[11] Alipay has yet to go public—although Alibaba CEO Jack Ma has signaled plans to list the spinoff on a Chinese stock market in the near future. Prudence Ho and Juro Osawa, "Alibaba Affiliate ANT Financial Plans China IPO," *Wall Street Journal*, February 27, 2015.

Concurrently, the technology still left room for what the article terms, "micro-corruption," or improper exchanges involving minor sums of money, power and/or influence. In other words, even though many e-*hongbao* might not be large enough to be classified as a bribe, "On a fundamental level, there is no difference between 'micro-corruption' and large corruption…" The articles argues that micro-corruption represented a slippery slope into more egregious illicit behavior, asserting that "the criminal trajectory of many embezzlement and bribery cases started with 'micro-corruption.'" With this fact in mind, it urges all levels of the discipline and supervision mechanism to employ a policy of "zero tolerance."

- 春节期间电子红包大战无输家 移动支付深入人心 (Spring Festival's E-Hongbao War is without Losers—Mobile Payments Makes a Deep Impact)
  People's Daily, February 25, 2015
  http://media.people.com.cn/n/2015/0225/c40606-26592311.html

- 警惕微信红包背后的"微腐败" (Guarding against the "Micro-Corruption" behind WeChat's Hongbao)
  China Discipline Inspection and Supervision News, February 21, 2015
  http://opinion.people.com.cn/n/2015/0221/c1003-26586245.html

- 江苏人春节发红包数排全国第四 南京一妹子抢了上千元 (Jiangsu Residents Rank Fourth in the Country in Sending Hongbao—One Female Grabs over 1000 RMB)
  Yangtse Evening News, February 25, 2015
  http://www.yangtse.com/jiangsu/2015-02-25/456499.html

- 上海市民春节期间发红包个数居全国第一 (Shanghai Residents Rank First in the Country in Sending Spring Festival Hongbao)
  Southern City News, February 25, 2015
  http://news.163.com/15/0225/02/AJ92Q38C00014AED.html

- 2 月 18 日除夕夜，你还记得在微信上摇到的红包是谁发的吗？(February 18, New Year's Eve Night, Do You Still Remember Who Sent You the Hongbao Shaken out of WeChat?)
  Sina, February 19, 2015
  http://survey.tech.sina.com.cn/result/107418.html

Localities Fight for Reform of State Monopolies in China's Power Sector

China's power sector has long been monopolized by two state-run grid companies, State Grid Corp. and Southern Power Grid Co., which run a complete business chain from transmission to distribution and sales in the northern and southern halves of China, respectively.[12] Together, State Grid and Southern Power Grid control electric power across more than 88 percent of the country's surface area, spanning 26 provincial regions, according to an article in *Economic Information Daily*.

Though China's State Council initiated electric power industry reform in 2002 to break up monopolies and introduce market-based pricing, progress has been slow, heightening calls from consumers at the local level to intensify reform efforts. The new round of reform is taking shape in various localities across China, including Shenzhen and Inner Mongolia, where market-oriented pricing pilot programs have started to make waves for China's national power companies.

In Shenzhen, the pilot program officially launched on January 1, 2015. According to China's National Development and Reform Commission, Shenzhen's price reform program seeks to replace current grid owners' profit-making pattern of obtaining price differences between on-grid and retail tariffs by overseeing gross revenues. Based on depreciation of power transmission assets and the maintenance and administration expenses of grid companies, the local government will set an "allowable" cost for transmission and distribution. According to the article, he hope is that separation of grid companies' revenue and profit from the value chain will weaken the dominant position of state-run grid companies, incentivize the integration of renewable energy sources to the grid, and motivate large electricity consumers to transact directly with power suppliers.[13]

Power companies in other localities, including Yunnan and Sichuan, are struggling to break into the market and compete with national power companies, reports *Economic Information Daily*. One "survivor" of the tough Chinese power sector market is Sichuan Provincial Hydropower Investment Operations Group Co., Ltd. (Sichuan Hydropower), which recently issued its "Report on Initiating Local Power System Reforms." The report noted that the main problems facing local-level power sector reform in Sichuan are lagging reform of the national power system; illogical electricity pricing mechanisms; and the unmet high demand for power in rural and agricultural areas.

The report points out that among the seven provinces with a wholesale relationships, Sichuan experiences higher wholesale prices than the other six provinces across four types of electricity usage (excluding residential use and agricultural use, in which its wholesale prices are lowest of the seven). The wholesale prices State Grid offers to Sichuan Hydropower are far higher than those it offers to its affiliated companies. One company employee indicated that, with local on-grid prices low, and off-grid prices high, a price scissors[14] is forming. Sichuan Hydropower's statistics show that the average difference between on- and off-grid electricity prices reached $0.03 per kilowatt hour, costing the company more than $2.2 million per year.

---

[12] Liu Jingsheng, "Taking the Next Step in Power Industry Reform," Caixin Online (China), January 30, 2015. *http://english.caixin.com/2015-01-30/100780367.html*.

[13] *Economist*, "Powering up," December 5, 2014. *http://www.eiu.com/industry/article/1702554754/powering-up/2014-12-05.*

[14] Price scissors occur when the value of a sector falls dramatically while another sector rapidly gains in price.

The article reports that other localities are lining up to initiate their own pricing reform pilot programs to overcome monopolistic practices. Inner Mongolia will become the second test zone after Shenzhen, and Yunnan and Shaanxi have already submitted policy recommendations to support pilot program implementation. But one participant in the newest rounds of power reform talks worries the grids in these provinces will prove more complicated compared with Shenzhen, such that conflicts of interest will hinder potential for meaningful reforms.

- 各地电改潮涌　欲破电网垄断 (Power Sector Reform Surges in China, with Hopes to Break Up Grid Monopoly)
  Economic Information Daily, February 4, 2015
  http://www.jjckb.cn/2015-02/17/content_538659.htm

CHINESE COMPANIES ABROAD

Hong Kong Tycoon Li Ka-shing Heads China's Substantial Overseas Acquisitions

In 2014, China became a net exporter of capital for the first time, according to an article in the *21st Century Business Herald*. Now, in 2015, the overseas mergers and acquisitions (M&A) market for Chinese enterprises continues its dramatic growth. The article cites a forthcoming report on Chinese overseas acquisitions from Morningside Whistle Group (Morningside), a Chinese Internet platform that helps Chinese capital conduct cross-border investment and overseas M&A, which tallies a total of 40 acquisitions were completed in January. Among the 26 M&A deals for which transaction amounts were disclosed, total funds reached approximately $21.1 billion, a 324.5 percent increase from last year's total disclosed transaction amount.

Among the more lucrative deals, the acquisitions of one of Li Ka-shing's flagship companies, Hutchison Whampoa (Hutchison), drove the surge, according to the Morningside report. Hutchison's acquisition of UK mobile operator O2, British passenger train provider Eversholt Rail Group, and the Dutch pharmacy chain Dirx, constituted a total turnover of approximately $15.7 billion (Dirx did not disclose the amount of the acquisition), accounting for 74.6 percent of the total amount of disclosed overseas Chinese acquisitions in January.

On an industry basis, the report concluded that telecommunications, media, and technology (TMT), finance, and automobiles ranked at the top of disclosed Chinese overseas acquisitions. Each industry generated $16.2 billion, $2.3 billion, and $1.1 billion, respectively, accounting for 76.7 percent, 11.1 percent, and 5.1 percent of disclosed acquisitions in January. In absolute terms, the energy mining and TMT sectors were most active in completing M&As in January, with a total of ten transactions.

Geographically, the report found that Beijing, Hong Kong, and Shanghai continue to represent the most active regions on the buyer side, with a total of 21 M&A transactions, accounting for 52.5 percent of the total. Once again, Europe and the United States were popular destinations for Chinese acquisitions, especially in the United Kingdom, where disclosed transactions totaled a staggering $16.2 billion and accounted for almost all of the capital acquisitions in Europe. Though not dominant in Chinese investment activity, some small countries such as Israel, Iceland, Finland, and Laos have become new destinations for Chinese M&A deals.

In terms of ownership, 34 Chinese M&A transactions were completed by private companies, compared with only six M&A deals for state-owned enterprises (SOEs), constituting 85 percent and 15 percent of the total, respectively.

The data presented in the 2015 report on Chinese overseas acquisitions shed some light on China's strategic economic development goals. For one, heavy activity in the TMT industry suggests Chinese TMT firms are seeking to acquire companies in Western countries to get access to advanced technology and know-how, and utilize established brand power.

While SOEs and major players like Li Ka-shing are still dominant forces in Chinese overseas acquisitions, smaller private companies are stepping up for several reasons: first, SOE acquisitions of natural resources abroad are slowing due to weak commodity prices; second, private company deals are often small enough to avoid regulatory scrutiny and possible blocking; third, the Chinese government's anticorruption campaign has caused some SOEs to be more prudent in their spending.[15]

- 1 月中资海外并购翻 3 倍 李嘉诚 3 笔大单占 7 成 (Chinese Overseas Acquisitions Grow over Three Times in January, Li Ka-shing Deals Account for 70 Percent)
  21st Century Business Herald, February 9, 2015
  http://jingji.21cbh.com/2015/2-9/yNMDA2NTNfMTM2OTYyNQ.html

[15] Yvonne Lee, "Chinese Overseas Buying Increasingly Shifts to Private from State," *Wall Street Journal*, September 21, 2014. *http://www.wsj.com/articles/chinese-overseas-buying-increasingly-shifts-to-private-from-state-1411335001*.