

# China Cracks Down on Money Leaking Out of Its Borders

## Heightened Oversight on Cash Makes It Harder to Buy Property Overseas, Gamble in Macau



By  
WEI GU  
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Chinese regulators appear to be keen to close some of the country's capital-control loopholes. This may hit Macau casinos and overseas properties. North Square Blue Oak's Oliver Barron tells the WSJ's Wei Gu about the impact on the rest of the world.

China is trying to regain control of the cash flowing across its leaky borders and the effects will be felt around the world.

Beijing technically bans its citizens from buying overseas properties and stocks, and limits the money they can transfer abroad to \$50,000 a year. Despite these rules, wealthy Chinese have found ways to move their money across the border, making them the biggest international buyers of properties in places like the U.S. and fueling a boom in Macau's casinos.

Underground channels—such as the money-exchange shops found across Hong Kong—have flourished in recent years. Some Chinese banks have quietly provided services to funnel customers' money across the border to boost their businesses.

"There seems to be a desire to tighten," said Oliver Barron, head of investment bank North Square Blue Oak's Beijing office. "The government is reacting to perceived outflows as Chinese businessmen want to get their money out."

The government has a lot of leaks to plug. These include longstanding strategies such as businesses over-invoicing their purchases or individuals using informal money-transfer networks. Other methods are more controversial, such as a [Bank of China](#) program that allowed clients to move large sums abroad. In the gambling center of Macau, the rich have used junkets, which lend them money in the former Portuguese territory and collect the debts back home. Less wealthy gamblers use their UnionPay cards, China's only domestic bank card, to make fake purchases, pocketing the cash.

[Enlarge Image](#)

China's gambling capital is among the first to feel the chill. [Macau's casino revenue fell](#) for a second straight month in July, dropping 3.6% from a year earlier.

Grant Bowie, chief executive officer of MGM China Holdings Ltd.— [MGM Resorts International's](#) [MGM +0.76%](#) China venture—said at a news conference this week that China's moves to strengthen capital controls represent "a significant policy shift" that has made Chinese visitors to Macau "more circumspect."

Both of the main channels for getting cash out in Macau are being squeezed. UnionPay said in March that its payment network has tightened checks on suspicious transactions in the territory to combat money laundering.

Junkets are facing pressure from casinos and regulators to disclose the names of their customers.

Other methods of moving money are also disappearing. Jewelry counters on casino floors, where gamblers could do a quick buy-and-return transaction and come away with cash, have recently been shut.



A man plays a slot machine in Macau. Getting money into the Chinese territory is getting harder for Chinese citizens. *Bloomberg News*

"These outlets were put on these prime real-estate locations for one reason—to drive the mass business," said Ben Lee, managing partner of IGamiX Management and Consulting, who advises casinos. "Moving them away should thus have an inverse relationship to the growth of business there."

The biggest global impact of the crackdown will be felt in real estate. Chinese buyers have buoyed property markets from Sydney to Vancouver to London. Given the high prices of the homes involved, the buyers are certainly moving more than \$50,000 out of the country.

One route favored by real-estate investors that has been shut down is a money-transfer service run by Bank of China Ltd. called You Hui Tong. Bank of China has said that it has received some regulatory approval for the service. China is also working on a deal with U.S. regulators that would force U.S. banks to disclose the assets of Chinese depositors.

The squeeze is already hitting Chinese developers working overseas, such as [Country Garden Holdings](#) Co. [CTRY](#) **+6.28%** The developer has marketed some of the 10,000 units in a new waterfront land development in Danga Bay, Malaysia, to mainland buyers.

Country Garden's Malaysia project, its first international foray, was lauded as a success in its 2013 annual report, with contract sales of 7 billion yuan (\$1.13 billion). But this year, it has suffered from cancellations, mainly from Chinese buyers, according to people close to the matter. Some have cited difficulty in obtaining mortgages or moving funds offshore as one of the reasons for canceling.

The company said in an emailed response that You Hui Tong isn't the only overseas remittance method its Chinese buyers use. Although the impact of the closing of the service is limited, it does affect its marketing campaign, the company said.

The developer is now trying to attract buyers through discounts. It is also offering customers advice on how to get the cash needed to buy a unit out of China. During a recent visit to its sales office, about a 10-minute drive from Singapore, a saleswoman said that with the Bank of China channel closed for now, clients should look into underground money-exchange channels.

Some Chinese are using friends' and family members' transfer quotas to get the money they need over the border. But that practice has raised red flags too, with global banks increasingly scrutinizing money laundering.

For those who seek government approvals for big property purchases abroad, various regulatory bodies in China are asking detailed questions about where the money comes from and what they are buying with it, said Darren Xia, China director at real-estate firm [Jones Lang](#)

[LaSalle](#). [JLL](#) **+0.42%** [Jones Lang LaSalle Inc.](#) U.S.: NYSE\$**133.55** **+0.56 +0.42%** Aug. 14, 2014 4:02 pm Volume (Delayed 15m) : **166,917**AFTER HOURS\$**133.01** **-0.54 -0.41%** Aug. 14, 2014 4:35 pm Volume (Delayed 15m) :P/E Ratio**20.02**Market Cap\$**5.96 Billion**Dividend Yield**0.34%**Rev. per Employee\$**93,565**13413313210a11a12p1p2p3p4p08/14/14 [China Cracks Down on Money Lea...](#)08/07/14 [Overseas Developers](#) [Woo Hong K...](#)08/05/14 [War Exacts Heavy Toll on Ukrai...](#) [More quote details and news »](#) "The government

isn't turning the tap off," Mr. Xia said. "But they don't want it to get out of control."

Write to Wei Gu at [wei.gu@wsj.com](mailto:wei.gu@wsj.com)

# In China, Writers Don't Need Books to Make Big Bucks

## Some of Country's Highest-Paid Authors Write Online-Only Novels Catering to Young Males



By  
WEI GU



The heroes of Zhang Wei's novels are powerful, popular and successful—everything his readers dream of being, but doubt they will ever achieve. That has helped to make him one of China's most highly paid writers and a star among the country's self-described losers.

The secret to success for Mr. Zhang and a new wave of online writers and performers is making this underclass of consumers feel good in the virtual world.

Writers publishing their work solely online have become some of the highest-paid authors in China. They have tens of millions of followers—usually young men in China's smaller cities—who each pay

a small sum to read the novels on their smartphones. Their superhero science-fiction stories can be uplifting to young men who feel frustrated because they can't find a wife or buy a home.



Chinese men look at their smartphones in Beijing, China. Chinese mobile users increasingly are watching videos and reading books on their hand-held devices. *European Pressphoto Agency*

"China has entered the mobile Internet world, which is about satisfying users' entertainment needs," said Wang Xi, founder and chief executive officer of Easou.com, a search engine targeting people in the country's third- and fourth-tier cities. "The biggest growth potential is from people in small cities, who don't have PCs but are now watching videos and reading books on their hand-held devices."

China's online entertainment industry is huge. Total revenue in its Internet-gaming business is expected to exceed 100 billion yuan (\$16.2 billion) in 2014, according to research firm EnfoDesk.

And it isn't just writers who are raking in the cash. Some of the top performers on entertainment website YY.com—many of whom host talk shows or sing for fans—can make more than a million yuan a month, according to Eric He, the company's chief financial officer. Fans buy virtual items on YY.com to endorse their stars.

Mr. Zhang, who also goes by the pen name Tang Jia San Shao, earned 26.5 million yuan in royalties alone in 2012, according to data compiled by Wu Huaiyao. Mr. Wu, who tracks China's top-paid writers, says that makes Mr. Zhang China's best-paid online writer.

The Internet has helped to level the playing field for young writers. "It's so hard for young screenwriters in China to have an opportunity to write," said David Lee, a Hollywood producer who has been working to produce movies in China. "A handful of producers working with a small number of screenwriters control the lion's share of the market."

Now the tables have turned, as directors scrounge the Internet for potential hits. The 2013 Chinese drama "So Young," which was based on an online novel, grossed \$116 million on a \$5 million budget. As DreamWorks looks to produce its first animation film in China, it looked at online literature.

"On the Internet, young writers' ideas can be quickly developed and tested," said Mr. Lee. Chat rooms allow fans to discuss stories and offer feedback and comments, creating buzz before the movies are even made.

Online readership data tells studios, gaming companies and publishers which stories are likely to become hits, and which demographic groups should be targeted. More than 90% of online superhero books' readers are male and most of them are in their 20s, according to Cloudary, an online literature portal controlled by Shanda Interactive Entertainment Ltd.

These readers have dubbed themselves *diaosi*, a slang term for young men who often live with their parents and work at low-level jobs. Most are short on cash but long on free time to dream about a better life.

The most popular theme for online fiction is so-called *xuan huan*, which can be loosely translated as super-hero or science-fiction. The stories are usually set in the past, which brings less chance of censorship.

"I focus on xuan huan because it is more flexible and less limiting," Mr. Zhang said recently in an interview at the presidential suite of the upscale Kerry Hotel Pudong in Shanghai. His latest project is a movie that he describes as China's "Avatar."

Mr. Zhang, 33 years old, increasingly differs from his readers. He has plenty of money but no time. He has published about 10 novels in the last decade, writes 7,000 to 8,000 words every day and takes no holidays. He likes collecting watches and jade—hobbies that he notes cost money but take up little time.

There is a big commercial machine behind successful entrepreneurs like Mr. Zhang. The writers sign contracts with online portals, which promote them in return for part of the rights to their stories.

These online celebrities are really no different from some professional actors, in that they cultivate the appearance of living ordinary lives. Some come from humble backgrounds, while others pretend to have such roots to appeal to their audiences.

"When they are with their fans, they are like an average *diaosi*," said Easou's Mr. Wang. But "when they are out, they drive expensive cars and stay in five-star hotels."

**Write to Wei Gu at [wei.gu@wsj.com](mailto:wei.gu@wsj.com)**

# Chinese Malls Have Growing Appetite for Restaurants

## As Luxury Boom Fades, Consumers Are More Drawn to Cafes and Bars



Sales at restaurants are growing faster than at luxury stores in China. Mall operators are betting on the trend. *China Xintiandi*

As luxury loses some of its luster in China, retailers and investors are betting the way to consumers' wallets is through their stomachs.

In the past, shopping malls in China have favored luxury-brand stores over restaurants because they paid more in rent. But now, restaurants are looking more appetizing to mall owners.

Bain Consulting expects the country's luxury market to grow just 2% to 4% this year, below the global average of 4% to 6%. By contrast, restaurant sales are still growing at about 10% year-over-

year. Cafes, sweet shops and bars have proliferated in China as consumers seek more than just shopping experiences.

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- [Malls in China Lure Big-Spending Parents](#)

And as Chinese travel more, they are becoming more exposed to and interested in international cuisine, from salads to steaks. The shift has been compounded by the rise of online shopping and a big drop in luxury gifts, a result of an anticorruption campaign.

"The next big wave in China is food, as Chinese are eager to discover a new lifestyle," said Nicolas Van de Castele, managing partner at Asia Retail Partners, which operates joint ventures in China with brands such as French menswear house Façonnable. "The fashion market is extremely difficult now in China."

Globally, luxury goods makers are also looking at food to diversify their businesses. [LVMH Moët Hennessy Louis Vuitton](#) S.A. [MC.FR -0.23%](#) fought [Prada](#) [1913.HK +0.09%](#)SpA to acquire a majority stake in Milanese coffee house Cova earlier this year. L Capital, LVMH's Asian private-equity business, spent \$100 million in May to acquire 90% of Singapore Crystal Jade Culinary Concepts Holdings, a chain with 120 restaurant across Asia.

Chinese private-equity firms are also getting in on the trend, with Hony Capital buying British restaurant chain Pizza Express for £900 million (\$1.5 billion) in July.

Asia Retail Partners is putting its luxury-goods expansion in China on hold, opting instead to open two Parisian cafes in Shanghai this year. Next, they are bringing French gourmet hamburger brand Big Fernand.

Food demand is resilient because restaurant meals are relatively inexpensive pleasures. One recent weekday at high-end department store Lane Crawford in Shanghai, the shopping areas were quiet despite big sale signs. But on the second floor, tucked in the back of its women's section, consumers were snapping up French-made Mont Blanc cakes for \$14 each. Although some customers don't like the fact that the pastries are shipped from 5,000 miles away, consistent quality is a selling point, said Asia Retail Partners' Mr. Van de Castele.

Throughout the country, new malls are adding food to their offerings, according to Cushman & Wakefield, a commercial real estate agency. Restaurants will take up nearly half the space at iShine City, a new shopping mall set to open in Shanghai's Huaihai Road shopping district later this year.

Even China's state-owned food companies are making a comeback. Western pastry brand Lao Da Chang (founded by Russians 77 years ago) returned earlier this year to its original premium location on Huaihai Road after a decade. Harbin Food Factory, which offers delicacies like butterfly crackers, doubled its space in the same area.

In Beijing, Seasons Place, an upscale shopping mall in the financial district, recently doubled its food and beverage offerings to 32% of total floor space from 17%, adding Western-style cafe New Element and midprice Chinese food joint Grandma's Home. Across town, luxury department store Shikong Place is also adding dining options.



Chinese women enjoy ice cream with wine in the trendy Xintiandi district of Shanghai. *Agence France-Presse/Getty Images*

In the southern city of Shenzhen, malls are adding cafes, pastry and Chinese dessert offerings to increase the amount of time customers spend there.

Shopping malls are courting restaurants not just because they bring traffic. Restaurants and retailers pay landlords a percentage of their sales or a fixed amount, whichever is higher. The percentage restaurants pay is just half what luxury stores pay, but they make up for the difference with greater volume.

Take the [Starbucks SBUX -0.80%](#) shop in Xintiandi, an affluent shopping and entertainment district in Shanghai. It now pays about the same in rent as top luxury brands in terms of yuan per square meter every month, according to Carrie Liu, general manager of China Xintiandi.

Responding to changing consumer tastes, Xintiandi Style, a boutique mall featuring designer labels, increased the percentage of food and beverage options to 20% from just 5% last year. Total traffic jumped by more than 20% and rent income rose by more than 10%.

"Young consumers favor light Western cafes, where they can work on their laptops or meet others," said Ms. Liu. "Multi-concept stores and specialized offerings such as whiskey bars are also becoming more popular."

Write to Wei Gu at [wei.gu@wsj.com](mailto:wei.gu@wsj.com)