China’s former domestic security chief tried to make a grab for power during the 2012 leadership transition, sources tell Reuters.

The power struggle behind China’s corruption crackdown

BY BENJAMIN LIM, DAVID LAGUE AND CHARLIE ZHU
Liu Han seemed to thrive in the company of officials. Even a birthday party in 2011 for Liu’s primary-school aged son drew a crowd of bureaucrats in Chengdu, the capital of China’s western Sichuan province where the flamboyant mining tycoon was based. “There was a mayor of a nearby city with a population of three or four million,” recalls Australian political lobbyist John Halden who helped win approval for Liu’s mining investments in Western Australia and was invited to the October 15 celebration. “There were senior people from the provincial treasury and about seven or eight officials from the city of Chengdu.”

But Liu’s close ties with officialdom didn’t last. When Chinese President Xi Jinping was named President at the end of the annual parliamentary session in March last year, the 48-year-old Liu was detained and surrounded by a different class of public servants; corruption investigators and prison guards.

The billionaire head of the privately-held Sichuan Hanlong group of companies is the first high-profile casualty of a power struggle wrapped in a corruption crackdown that is convulsing the senior echelons of the ruling Communist Party. On Friday, a court in central Hubei province sentenced Liu to death after a sensational trial on charges of murder, gun-running, fraud, extortion, illegal gambling and a string of other offences. Liu had denied all the charges.

Liu’s most serious offense, however, could well be political: He was caught up on the wrong side of a titanic power play, multiple sources say, because of his business partnership with the son of former domestic security chief, Zhou Yongkang.

To get at Zhou, Xi last year began rolling up the strongman’s extensive network of patronage, assembled over more than four decades in the oil industry, Sichuan provincial politics and the internal security services. More than 300 of Zhou’s relatives, political allies, business associates, underlings and staff, have been arrested, detained or questioned, according to people briefed on the investigation. Liu was one of them.

In a campaign unprecedented in modern China, Xi is determined to bring down Zhou for making a behind-the-scenes grab for power, the sources say. He was caught up on the wrong side of a titanic power play, multiple sources say, because of his business partnership with the son of former domestic security chief, Zhou Yongkang. In a campaign unprecedented in modern China, Xi is determined to bring down Zhou for making a behind-the-scenes grab for power, the sources say.

POWER STRUGGLE BEHIND CHINA’S CORRUPTION CRACKDOWN

BEIJING/HONG KONG, MAY 23, 2014

$14.5 billion

The amount of assets seized from Zhou Yongkang’s family members and business associates.

Source: Reuters sources

PATRONAGE NETWORK

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Closing in on Zhou’s circle

After former domestic security chief Zhou Yongkang fell from grace, many of his aides and associates have been placed under investigation. He and his wife are currently under house arrest.

Note: CNPC = China National Petroleum Corp. ¹ Ji worked as an aide for Zhou when the latter was land resources minister in the late 1990s. He then followed Zhou to Sichuan province and became one of his secretaries when Zhou was provincial party boss. ² Also former head of an advisory body to legislature in Sichuan. ³ Died in September; the company did not provide a reason for her death. ⁴ From a previous marriage.

Source: Reuters.
to comment on the investigation when reached by telephone. The office of the Communist Party spokesman also declined to comment when reached by telephone.

Although he retired in late 2012 from the elite Politburo Standing Committee, the apex of political power in China, the 71-year-old Zhou wanted to rule from behind the scenes and had become a threat to leadership stability, according to multiple sources with leadership ties.

One of Xi’s influential patrons, former vice president Zeng Qinghong, was the catalyst for the investigation into Zhou, three sources with ties to the leadership said.

“Zeng proposed to central (authorities) that Zhou Yongkang be investigated for posing a political risk to the collective leadership,” one of the sources said.

Neither Zhou nor his representatives were available for comment. No evidence has emerged that Zhou or his relatives have violated any Chinese laws or used Zhou’s influence to clinch deals.

“TIGERS AND FLIES”

As part of his vision for a rejuvenated China, Xi is preaching a return to the austerity of the Party’s early years. An attack on corruption is at the core of this campaign. Xi pledges to go after “tigers and flies” in rooting out wrongdoing. He warns that popular disillusionment with rampant official graft threatens the Party’s hold on power.

While there is little risk for Xi and his supporters in taking down Lai, a similar move against someone as senior as Zhou Yongkang will take much more political courage.

“If the leaders are using the corruption crackdown just to bring down their political rivals, there will be grim consequences, as many officials in China are believed to have corruption problems,” says Zhao Guangbin, managing director of Shanghai and Toronto-based consulting firm, Gateway International Group.

The government and state media have not made any official statement about Zhou or the case against him. An announcement is expected around the fourth plenum of the party’s elite 205-member Central Committee later this year, two sources said. Xi and other top leaders have yet to decide whether to put Zhou on public trial, according to multiple sources with leadership ties.

Investigators want “to make it an ironclad case”, one of the sources said. If Zhou is charged, the authorities may avoid publishing detailed allegations to minimize any damage to the Party’s image, the sources said.

Zhou was last seen in public at an alumni event at the China University of Petroleum in Beijing on Oct. 1. He has been under virtual house arrest since the investigation into his affairs began last year.

BUGGING LEADERS

Zhou is believed to have orchestrated the bugging of senior Chinese leaders. At Zhou’s behest, Beijing’s civilian intelligence chief Liang Ke ordered his most trusted men to bug the telephones of Premier Li

The beginning of the end

Key events in the downfall of Bo Xilai, his patron Zhou Yongkang and their associates

November 15, 2011
British businessman Neil Heywood dies in a Chongqing hotel room.

February 6, 2012
Chongqing police chief Wang Lijun flees to the U.S. consulate in Chengdu, seeking asylum, after accusing Bo Xilai’s wife of the Heywood murder.

April 2012
Bo is stripped of his posts and his wife, Gu Kailai, and an orderly are investigated in connection with Heywood’s death.

May 2012
Veteran Communist Party members write to President Hu Jintao, asking him to sack Zhou Yongkang.

TIGERS AND FLIES:
Chinese President Xi Jinping launched a corruption crackdown after taking power in November 2012, vowing to take down both the high and the low.

REUTERS/JASON LEE
Keqiang and his immediate predecessor, Wen Jiabao, their families and aides in the run-up to the party's 18th congress in 2012, said one source close to the current leadership and another who has been briefed about the surveillance.

The eavesdropping was aimed at "looking for evidence of (any) corruption", one source said. It was unclear how the authorities discovered the bugging. Liang was taken into police custody this year and is himself undergoing investigation for corruption.

Further alienating Xi and other top leaders, Zhou backed the now disgraced Bo Xilai to join the Politburo Standing Committee in the run-up to the 2012 Communist Party conference that would install a new leadership. The charismatic Bo, who was the former Party boss of Chongqing in Sichuan province, would have been beholden to Zhou (himself a former Sichuan Party chief) and a powerful rival to Xi had he succeeded in reaching the top level.

At the peak of his influence, Zhou Yongkang held one of the most powerful positions in China. As domestic security chief, he oversaw the police force, the civilian intelligence apparatus, the paramilitary People's Armed Police, judges and prosecutors. During his five-year watch, the budget for maintaining internal stability exceeded the public figure for military spending. The position, deemed too powerful, was downgraded after he retired.

To ensure his influence past retirement, Zhou had nominated Bo Xilai to succeed him as domestic security chief and tried to orchestrate the younger man's promotion to the Standing Committee, the sources with leadership ties said.

But Bo's rise was aborted in 2012 by the attempted defection of his Chongqing police chief, Wang Lijun, to the U.S. Consulate in Sichuan province. After apparently abandoning his bid for asylum, Wang implicated Bo's wife in the 2011 murder of British businessman, Neil Heywood. Bo's wife and his former police chief have been convicted and jailed. Bo himself was sentenced to life in prison last year for corruption and abuse of power.

PREMIER BO?

Zhou had envisioned himself as the power behind the throne in retirement if and when Bo took over, the sources said. "Zhou Yongkang wanted to be Cixi,'" a third source said, referring to the empress dowager of China's last imperial dynasty who ruled from behind the scenes.

Zhou and Bo also toyed with the idea of Bo becoming premier and ranked number three in the Standing Committee behind President Xi and Li Keqiang, who would have been kicked upstairs and made head of parliament, three sources with ties to the leadership said.

This scenario never played out. But the leadership was shocked when it learned about the alleged plot, the sources said. It was unclear how it was uncovered. "This would have overturned the 17th congress resolution," one source told Reuters, referring to an unpublicised decision made at the party's five-yearly conclave in 2007 to make Li premier. "It would have been
tantamount to a palace coup,” a second source said.

Zhou also attempted to gain influence over a top aide to then President Hu Jintao, Ling Jihua, three sources said. Ling’s son, Ling Gu, aged in his 20s, was killed driving a Ferrari in Beijing on March 18, 2012. One young woman was also killed and another injured. Soon after the crash, a Zhou ally, Jiang Jiemin, then chairman of state-owned oil giant China National Petroleum Corp (CNPC), sought to buy the silence of the dead victim’s bereaved family and the surviving passenger, the sources said.

“Millions (of yuan) were paid,” a third source said. “When (President) Hu Jintao found out, he was very disappointed.” Jiang used CNPC funds to make the payments, sources said. Ling Jihua has been demoted to head a low-level ministry for attempting to cover up the crash. He could not be reached for comment. Jiang Jiemin was briefly elevated to be the top regulator of China’s state-owned enterprises, but was sacked soon afterwards. He is now in custody on suspicion of corruption, sources say.

Zhou Yongkang’s son Zhou Bin, who has business interests in the energy sector, is also a key target of the corruption probe. In a sign of Zhou Yongkang’s lingering influence in the security apparatus, Zhou Bin eluded a warrant for his arrest and fled to the United States early last year after receiving a tip-off from an ally, said one source with direct knowledge of the matter. “Central (authorities) were shocked and angry,” the source said.

After negotiations with Chinese authorities, Zhou Bin returned to China via Singapore later in the year, the source said, adding that he has been detained and investigated for corruption and its links to gangsters. It has not been possible to reach Zhou Bin for comment.

From Zhou Bin, the investigation led to Liu Han. Two sources briefed on the investigation said the younger Zhou and Liu were business partners. They gave no further details but the well-connected Chinese magazine Caixin reported in February that Liu and Zhou Bin had worked together on deals in power generation and tourism in Sichuan. This has not been independently confirmed. Reports in China’s domestic media have noted that the rise of Liu Han’s business empire coincided with Zhou Yongkang’s posting as Sichuan Party secretary from 1999 to 2002.

Without mentioning Zhou Yongkang, Zhou Bin or the wider crackdown, the authorities in February acknowledged the probe into Liu was driven from the top. A 10-month investigation “under the strong leadership of the central committee of the Communist Party” had solved Liu’s case, the official Xinhua news agency reported on February 20.

**AUSTRALIAN MINES**

Liu set up Sichuan Hanlong in 1997. With his younger brother, Liu Wei, the pair built a fortune from building materials, construction and property, according to reports in the official media and interviews with former employees.

He also had global ambitions. In 2009, Hanlong made its first major offshore investment, taking a $200 million controlling stake in Perth-based Moly Mines, a company planning to develop one of the world’s biggest molybdenum deposits in West Australia’s Pilbara region. The company also paid $40 million for a stake in another molybdenum play, Colorado-based General Moly Inc.

Hanlong also took stakes in two other Perth-based miners, Marenica Energy, which has rights to a uranium deposit in Namibia, and Sundance Resources Ltd, which has extensive iron ore deposits...
straddling the border of Cameroon and Congo. Hanlong eventually had 12,000 employees worldwide and annual revenues of $2.5 billion, according to statements on the websites of its listed companies. It is unclear how the confiscation of Liu’s assets has affected his stakes in Chinese and overseas companies. Hanlong Vice President Kang Huanjun declined to answer questions about the company. “Thanks but I’m not able to make any comment,” he said when called on his mobile phone.

Former managers, staff and colleagues say the chain-smoking Liu made no secret of his love for expensive cars, banquets, fine French wines and heavy gambling. “All the meetings we had with him were pretty short, just one or two hours,” says Collis Thorp, former chief operating officer at Moly Mines. “He was most interested in heading out to the local casino.”

Aside from his business success and extravagance, Liu was known for his philanthropy, particularly to help victims of the devastating Sichuan earthquake in 2008. He also appeared to be a dedicated family man. On his regular visits to Australia, Liu sometimes travelled with his attractive, 37-year-old wife, Yang Xue, and their two young children, a boy aged about 10 and a girl slightly younger, according to former staff members and advisors who met the family.

An entirely different picture of Liu emerged before and during his 20-day trial in the central province of Hubei, which ended on April 19, according to lurid reports in the state-controlled media.

Far from a benevolent high-roller, Liu was portrayed as a violent and ruthless crime boss. He and his brother were accused of leading a gang responsible for nine murders, multiple assaults, harbouring criminals, obstruction of justice, loan fraud, kidnap and contract rigging.

At the time he was detained, his gang had stakes in 70 companies and had accumulated assets worth almost 40 billion yuan ($6.4 billion), according to the official coverage of his arraignment and trial, which was closed to the public.

Ahead of his trial, state-run television broadcast an interview with his wife Yang, dressed in what appeared to be prison garb, where she described how Liu paid off government officials. “He would take me to dinner with them and during dinner he would give them lots of gold, jade and other precious gifts worth several hundred thousand to millions of yuan,” Yang said. “Sometimes he bribed them through gambling.” The pair appear to have been divorced since Liu was detained because Yang was described as his former wife in this interview and another televised excerpt of the trial carried on state television.

While Liu Han insists he is innocent, his brother Liu Wei has pleaded guilty and told the court he was ready to accept punishment for his crimes. Liu Wei, also known as Liu Yong, was also sentenced to death by the court in Hubei on Friday. Another 34 defendants in the case were given sentences ranging from 11 years in prison to death, Xinhua news agency said.

Xinhua reports have quoted witnesses questioned as part of the investigation saying the tycoon had close ties with senior provincial and Beijing officials. Former Hanlong group executives and advisors say it was clear that Liu enjoyed close ties with senior government and party officials.

Visibly distressed and in tears at stages of his trial, Liu seemed to understand at the time that he would be lucky to avoid the death sentence. As Yang was escorted from the court after giving evidence in a televised segment towards the end of his trial, a sobbing Liu called out to her. “Look after the children,” he cried, “look after my mother.” Yang promised she would.

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SPECIAL REPORT

THE POWER STRUGGLE BEHIND CHINA’S CORRUPTION CRACKDOWN

Big spender, philanthropist and warlord

PERTH/HONG KONG
BY DAVID LAGUE AND CHARLIE ZHU

Former managers and staff at Liu Han’s Australian operations were dumbfounded when the Chinese tycoon went on trial last month for leading a murderous, mafia-style gang.

In 2009 when Liu, 48, launched a bid to take control of Moly Mines, executives then running the Perth-based company ordered background checks. Their findings could not have been more different: Liu was best known in China as a philanthropist in his native Sichuan province.

One story stood out. Amid the devastation near the epicentre of the 2008 Sichuan earthquake, a school Liu had helped build remained standing and all of its students had escaped unharmed. In contrast, many other shoddily built classrooms, so-called “tofu schools”, had collapsed, killing thousands of children. Liu also donated generously to reconstruction and relief efforts.

For Moly Mines, Liu’s philanthropy enhanced his credibility as an investor in Australia. “No one said he was a criminal”, says Collis Thorp, then chief operating officer of Moly Mines and a veteran of Western Australia’s booming mineral sector.

After opening negotiations with Liu, the Australian executives also learned he had global ambitions. Liu wanted Moly Mines to become the platform for an international commodity trading house. The company was sitting on a massive molybdenum deposit, thought to be the second biggest in the world, in Western Australia’s mineral rich Pilbara region.

Molybdenum provides strength, heat tolerance and corrosion resistance in a range of specialized steel alloys for industrial and military use and is seen as a strategic commodity. Liu said he could arrange financing from Chinese banks to build and operate mines on the deposit.

Neither Moly Mines nor Australian regulators say they turned up any findings about Liu that would threaten the deal. In late 2009, Liu’s privately-held Sichuan Hanlong Group won approval from the Australian government, paying $140 million for 52 per cent of Moly Mines and providing the company with a $60 million loan. Hanlong also pledged to secure $500 million in funding to develop the deposit.

For Moly executives, one unnerving fact did emerge from Liu’s past: someone had tried to kill him. In 1997, Liu narrowly escaped an assassination attempt in his hometown of Guanghan when a gunman fired two shots at him but missed, according to reports in the official media of court cases in China. Liu’s Australian managers and advisors say they assumed the failed hit explained why the Chinese tycoon always traveled with a bodyguard.

BIG SPENDER

With Hanlong in control of Moly Mines and looking for more investment targets, Liu was a regular visitor to Perth and other state capitals.

To his local staff, the head of the biggest privately held group in Sichuan appeared to be a stereotype of a cashed-up mainland tycoon - one former employee noted a diamond-encrusted, custom-made Franck Muller watch on his wrist.

When Liu entertained, he routinely ordered the most expensive French wines, spending more than $12,000 on a bottle of wine in Sydney, according to former staff. One former manager recalls Liu spending $100,000 on wine in one meal.

And, he was passionate about cars. Liu boasted that he had a fleet of 80 luxury vehicles, according to staff from his Chinese and Australian companies. A former executive at one of Liu’s companies said the tycoon owned a Lamborghini SuperVeloce China, a limited edition sports car specially designed for wealthy Chinese buyers with a distinctive orange stripe through the middle of the body.

Liu’s greatest passion was gambling, his Australian and Chinese staff say, staying at the tables until dawn and then sleeping until mid-day. He was a regular at Crown casinos in Perth and Melbourne. He sometimes complained when he lost heavily, but always claimed he recovered his losses on subsequent visits. In Perth, he often stayed in Crown’s presidential suite, former staff and advisors say.

At his trial, Liu admitted losing $128 million in Macau, $15 million in the United States, $9 million in Singapore and about $1
million in Australia, according to prosecutors. “I was unwilling to leave gambling tables, either when I was winning or losing money,” Liu testified, according to official reports of his trial. “If I win, I want to win more. If I lose, I want to recover my losses. I would only leave when I lost all my chips.”

Australian executives who visited him on business trips to Chengdu, where the Hanlong group has its headquarters, and other cities in China, say Liu’s routine typically involved short meetings followed by long lunches or dinners in private rooms at restaurants or hotels. “There would be lots of people running around and lots of courses,” says John McEvoy, Moly Mines’ former chief financial officer, who traveled in China with Liu.

To former Moly Mines staffer, mainland-born Xu Chuanmei, Liu appeared to be intelligent, well-educated and avoided business jargon in his Sichuan-accented Chinese. Liu speaks little or no English and always used an interpreter while overseas.

“He likes to put things in a simple way,” she says, adding that Liu often travelled with his own supplies of Sichuan food and condiments.

Eventually, Liu’s plans for Moly Mines were frustrated as stubbornly low molybdenum prices undermined the viability of the company’s deposit. Most of the executive team at the company when Hanlong took control have since left or been replaced.

THE WARLORD

A more equivocal picture of the Chinese tycoon began to emerge after Liu made takeover bids for two other Perth-based companies, Sundance Resources and Bannerman Mining. The Australian Securities and Investments Commission, Australia’s corporate regulator, investigated executives at Liu’s Australian subsidiary, Hanlong Mining Investment, for insider trading linked to the failed bids. One of the executives, Calvin Zhu Boshi, a Shanghai-born Australian citizen, pleaded guilty and in February last year was jailed for 15 months.

In an affidavit filed in the Supreme Court of New South Wales ahead of his sentencing, Zhu said shortly after he joined Hanlong Mining in 2010, fellow executives had described Liu Han as a “warlord”.

“In Chinese culture, that means Liu Han is a powerful business person; he is successful in business, politics and the underworld,” Zhu said in his affidavit.

Being part of Liu Han’s executive team gave Zhu entrée to a high-flying lifestyle of business or first class air travel, top hotels and the best restaurants. In Hong Kong, he and colleagues stayed at VIP rooms at Hong Kong’s Shangri-La Hotel and the Ritz Carlton in Beijing, he said in his affidavit. “Although everything was paid by Hanlong, I felt money was no object,” he said. “I wielded money and power and I felt like I was really starting to become somebody important.”

With a fellow executive, Zhu regularly spent over $3,000 a day on food and drink, he said. While in Beijing, a colleague bought two luxury cars for them to drive, an Audi Q7 and an Audi S5. “We were always chauffeured in Mercedes’, Range Rovers and sometimes in Rolls Royces,” Zhu said in his affidavit.

However, Zhu began to fear for his safety when he decided to confess to illegal trades and cooperate with the investigation into other Hanlong Mining executives. Zhu pleaded guilty to trading shares and derivatives in the Sundance and Bannerman bids. He also pleaded guilty to insider trading during stints with two earlier employers. Zhu admitted he made more than $370,000 in profit from insider dealing. Gains from the Sundance and Bannerman trades were transferred to Hong Kong bank accounts.

In his affidavit, he said Liu Han had assistants in Australia who had connections with underground figures linked to casinos and loan sharks. Zhu said he hoped that the Sundance takeover bid succeeded so that Liu would not be so angry with him. “As long as I do not get Han Liu into any trouble, I do not think he will come after me,” he said in his affidavit.

Zhu needn’t have worried about his safety. Within a month of the Australian starting his sentence, Liu Han himself was in custody. On Friday, a court in China’s central Hubei province was sentenced to death after a sensational trial on charges of murder, gun-running, fraud, extortion, illegal gambling and a string of other offences.

Editing by Bill Tarrant