

Murdoch's Dealings in China: It's Business, and It's Personal

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BEIJING, June 25 — Many big companies have sought to break into the Chinese market over the past two decades, but few of them have been as ardent and unrelenting as Rupert Murdoch's News Corporation.

Mr. Murdoch has flattered Communist Party leaders and done business with their children. His Fox News network helped China's leading state broadcaster develop a news Web site. He joined hands with the Communist Youth League, a power base in the ruling party, in a risky television venture, his China managers and advisers say.



Wendi and Rupert

Mr. Murdoch's third wife, Wendi, is a mainland Chinese who once worked for his Hong Kong-based satellite broadcaster, Star TV. Her role in managing investments and honing elite connections in China has underscored uncertainties within the Murdoch family about how the family-controlled News Corporation will be run after Mr. Murdoch, 76, retires or dies.

Regulatory barriers and management missteps have thwarted Mr. Murdoch's hopes of big profits in China. He has said his local business hit a "brick wall" after a bid to corral prime-time broadcasting rights fell apart in 2005, costing him tens of millions of dollars.

But as he seeks to buy Dow Jones, the parent company of The Wall Street Journal, his track record in China has attracted attention less because of profits and losses than for what it shows about his management style.

Mr. Murdoch cooperates closely with China's censors and state broadcasters, several people who worked for him in China say. He cultivates political ties that he hopes will insulate his business ventures from regulatory interference, these people say.

In speeches and interviews, Mr. Murdoch often supports the policies of Chinese leaders and attacks their critics. A group of China-based reporters for The Journal accused him in a letter to Dow Jones shareholders of "sacrificing journalistic integrity to satisfy personal and political aims," a charge the

News Corporation denies.

His courtship has made him the Chinese leadership's favorite foreign media baron. He has dined with former President Jiang Zemin in the Zhongnanhai leadership compound in Beijing and repeatedly met other members of the ruling Politburo in Beijing, New York and London. Television channels affiliated with Mr. Murdoch beam more programming into China than any other foreign media group.

"The reality is that the Chinese government is not going to let anything radical happen in media," says Gary Davey, an Australian who once ran Star TV for Mr. Murdoch. "But we got a lot farther than anyone else did."

News Corporation officials in Beijing and Hong Kong declined to comment for this article. After The New York Times began a two-part series on Monday about how Mr. Murdoch operates his company, the News Corporation issued a statement:

"News Corp. has consistently cooperated with The New York Times in its coverage of the company. However, the agenda for this unprecedented series is so blatantly designed to further the Times's commercial self interests — by undermining a direct competitor poised to become an even more formidable competitor — that it would be reckless of us to participate in their malicious assault. Ironically, The Times, by using its news pages to advance its own corporate business agenda, is doing the precise thing they accuse us of doing without any evidence."

China has never been a make-or-break proposition for the News Corporation, since its operations here represent a small part of the company, which is valued at \$68 billion. But Mr. Murdoch pushed for nearly 15 years to create a satellite television network that would cover every major market in the world, including China.

He coveted the \$50 billion in ad spending that flows mainly to China's state-owned news media whose products, even after years of improvements, still reflect propaganda directives as well as consumer demand.

The News Corporation's competitors in television and film, the Walt Disney Company, Viacom and Time Warner, also had to accommodate Chinese demands as the price of admission to the local market.

But Mr. Murdoch gave more, his associates said.

"The Chinese discovered that Rupert was a real emperor who controlled everything himself," said H. S. Liu, who oversaw government relations for the News Corporation in China. "His rivals had big, cautious bureaucracies that could not always deliver."

China has long meant more than business to the Murdoch clan. Mr. Murdoch's father, Keith, wrote about China as a war correspondent in the 1930s. As a newspaper proprietor in Australia, he collected Ming dynasty porcelain.

When Rupert Murdoch visited Shanghai in 1997, Wendi Deng, then a junior News Corporation employee in Hong Kong, flew up to serve as his translator. Together they explored Shanghai, which was then emerging as a lively center of finance and commerce.

"He was knocked over by the place," recalled Bruce Dover, a former China manager for Mr.

Murdoch, “and by her.” Within two years, Mr. Murdoch had left his second wife, Anna Mann, and married Ms. Deng.

Clawing Back

Mr. Murdoch’s initial foray into China was disastrous. Shortly after he purchased the satellite broadcaster Star TV in Hong Kong for nearly \$1 billion in 1993, he made a speech in London that enraged the Chinese leadership.

He said that modern communications technology had “proved an unambiguous threat to totalitarian regimes everywhere.” Star could beam programming to every corner of China, and Murdoch had paid a big premium for the broadcaster for that reason.

Prime Minister Li Peng promptly outlawed private ownership of satellite dishes, which had once proliferated on rooftops. Star TV faced a threat to its viability.

Chinese leaders rebuffed his attempts to apologize in person — a ban that lasted nearly four years. But he sought to placate them. One target was Deng Xiaoping, then retired but still China’s senior leader.

HarperCollins, Mr. Murdoch’s book unit, published a biography of Mr. Deng written by his daughter, Deng Rong. Although it mainly recycled propaganda about Mr. Deng, Mr. Murdoch threw an elaborate book party at Le Cirque in New York. The book sold poorly.

He also cultivated ties with Mr. Deng’s eldest son, Deng Pufang, who is disabled. Mr. Murdoch chartered a jet to ferry a troop of disabled acrobats that the younger Mr. Deng had promoted to perform abroad, according to a former News Corporation official.

Star TV overhauled its programming to suit Chinese tastes. In 1994 it dropped BBC News, which had frequently angered Chinese officials with its reports on mainland affairs.

Mr. Murdoch said the decision was made for business reasons, not political reasons. Mr. Davey, who then ran Star TV, agreed that cost was a primary consideration.

But he said he had pressed the British broadcaster to stop showing a video of a man facing down a tank outside Tiananmen Square — an indelible image from China’s crackdown on pro-democracy protesters in 1989 — during its on-air programming breaks. He said the BBC refused, calling the video a “journalistic presentation.”

“The BBC never got the sensitivities of the situation,” Mr. Davey said. “It was relentless and stupid. Neither party was too upset about ending the relationship.”

If Star was a potential threat to the one-party state, it was also a new opportunity. Chinese officials disliked Western news media coverage of China and wanted to present their own face to the world. Mr. Murdoch provided the access they wanted.

In 1996, he entered a joint venture with Liu Changle, a onetime radio host for the People’s Liberation Army who had connections with propaganda officials. Their joint news and entertainment channel, called Phoenix, beamed programs to the small number of urban households permitted to see foreign broadcasts in China. Mr. Murdoch transmitted the same programming around the world on his satellites.

Phoenix imitated the fast pace and on-the-scene reporting style popular in the West and shook up the mainland's staid news media, which still featured well-coiffed narrators reading scripts about meetings between senior leaders held that day. But Phoenix also tended to steer clear of the most sensitive political topics and could be bombastically nationalistic.

Phoenix may have demonstrated that the Chinese news media could become more sophisticated and dynamic without threatening the party's power. It also showed that Mr. Murdoch could be an asset.

"Officials realized he had a good intentions," Mr. Liu said.

After Phoenix proved a hit, Ding Guangen, a hard-liner who exercised sweeping control over all Chinese news media as chief of the country's Propaganda Department, granted Mr. Murdoch his first meeting. So did Zhu Rongji, then the prime minister.

Mr. Zhu noted that Mr. Murdoch had become an American citizen to comply with television ownership rules in the United States. He joked that if he wanted to broadcast more in China, he should consider becoming Chinese, a person who attended the meeting recalled.

Friendly Relations

The News Corporation's outreach intensified. When Mr. Murdoch learned that China Central Television, known as CCTV, was struggling to develop a news Web site, he dispatched a team from Fox News to help design and operate one. Another News Corporation team brought People's Daily, the mouthpiece of the Communist Party, online.

China also needed help encrypting satellite transmissions so it could develop a pay-TV service, a specialty of the News Corporation's NDS subsidiary. NDS helped Beijing create a proprietary encryption system. It never realized sizable royalties, people who worked at the News Corporation said.

Similarly, the company brought delegations of Chinese officials to Britain, so they could study how Mr. Murdoch's BSKyB unit had become a lucrative gateway for satellite television in Europe.

"Our thinking was that we would show off our technology and they would contract News Corporation to do the same for them," said Mr. Dover, Mr. Murdoch's former China manager. "Their thinking was, 'We want this for ourselves.' "

"It ended being more of a giveaway," Mr. Dover said.

In late 1998, President Jiang invited Mr. Murdoch to Zhongnanhai. The official Xinhua news agency, reporting on the session, made clear that the media baron had a new reputation.

"President Jiang expressed appreciation for the efforts made by world media mogul Rupert Murdoch in presenting China objectively and cooperating with the Chinese press over the last two years," Xinhua said.

The Murdochs often echoed the Chinese government line. In a 1999 interview with Vanity Fair, Mr. Murdoch spoke disparagingly of the Dalai Lama, whom the Chinese condemn as a separatist. "I have heard cynics who say he is a very political old monk shuffling around in Gucci shoes," he said.

James Murdoch, who ran Star TV from 2000 to 2003, said in a speech in Los Angeles in 2001 that

Western reporters in China supported “destabilizing forces” that are “very, very dangerous for the Chinese government.” He lashed out at the Falun Gong spiritual sect, which had just endured brutal repression in China, calling it “dangerous and apocalyptic.”

The Journal won a Pulitzer Prize for its coverage of the suppression of the Falun Gong movement in 2001. Last month, seven China-based reporters for The Journal wrote a letter to Dow Jones’s current controlling shareholders arguing that the articles on Falun Gong “may never have seen the light of day” if The Journal had been owned by Mr. Murdoch.

News Corporation officials say such fears are baseless. While several reporters who worked in China for the company’s publications in the 1990s say Mr. Murdoch’s editors pressed them to tone down their coverage of delicate issues that could anger the Chinese leadership, reporters serving in such posts now say they have not come under similar pressures.

By the late 1990s, Mr. Murdoch was traveling several times a year to the country. He was often joined by Wendi Murdoch, who left her formal position in the company but continued to scout for investments in China and participate in strategy decisions there, several people who worked for the News Corporation said.

One of her roles: introducing her husband to Chinese entrepreneurs. Many of them had received business degrees in the United States, as she had at Yale.

The Murdochs invested about \$150 million in half a dozen start-up Internet and telecom companies at the height of the Internet bubble between 1999 and 2001. Only one, Netcom, returned an appreciable investment profit, two former News Corporation executives said.

But one of the entrepreneurs the Murdochs befriended during the investment spree was Jiang Mianheng, the son of President Jiang. Ms. Murdoch and some other News Corporation employees argued internally that the younger Mr. Jiang could help Star distribute its broadcasts more widely, two former News Corporation executives said.

It is unclear what role, if any, Mr. Jiang played. But in 2002, the company became the first foreign broadcaster to receive “landing rights” to sell programs to cable systems in Guangdong Province, near Hong Kong.

The license came with a catch. The News Corporation again consented to transmit Chinese programs — this time, the English-language news, talk shows and cultural shows on CCTV’s Channel 9 — to the United States and Britain. Time Warner later agreed to similar terms. But the market appeared to be opening, with the News Corporation in the lead.

Prime Time

The News Corporation and its joint venture partners controlled 9 of the 31 foreign channels, including news, movies, music videos and sports, more than any other foreign media company. Officially, however, it could still reach only government and foreign compounds and luxury hotels, as well as homes in Guangdong. Mr. Murdoch wanted more.

Good news appeared to come in 2004. The authorities began allowing Chinese-foreign joint ventures to produce shows that could be broadcast locally without the restrictions that apply to overseas content.

Mr. Murdoch interpreted the order liberally. The News Corporation allied itself with a state-run broadcaster in the western province of Qinghai. The arrangement covered not only production but also distribution. Through middlemen, the News Corporation also purchased prime-time slots in 25 Chinese provinces. It had become a backdoor national broadcaster.

Aware that the venture pushed the limits of what regulators allowed, the News Corporation sought to arrange political cover, people involved in arranging the deal said. It recruited a media and stock market entrepreneur named Ding Yuchen to join the venture as a partner. Mr. Ding's father, Ding Guangen, was the longtime propaganda chief. A second partner was the Central Committee of the Communist Youth League, considered the political power base of China's new top leader, Hu Jintao.

In comments to News Corporation investors in early 2005, Mr. Murdoch boasted of a "new venture," which he did not name, "where we'll have nearly 50 percent of a prime-time channel, which will have access to well over 100 million homes."

It did not endure. The News Corporation used Qinghai to broadcast branded shows it had produced for its own, more limited channel. When they began appearing nationally, competitors complained that Mr. Murdoch was getting special treatment.

The Propaganda Department forced the News Corporation to end its involvement with Qinghai shortly thereafter. The cost of the debacle: between \$30 million and \$60 million, people connected to the company at the time said.

News Corporation executives said they felt the political winds had shifted against them. President Jiang, who retired from his final post as military chief in 2004, had lost much of his day-to-day influence. President Hu's propaganda team pulled in the reins. Mr. Murdoch said publicly that he had hit a "brick wall."

Mr. Liu, Mr. Murdoch's partner at Phoenix, said the Qinghai venture "is not something I would have tried" because it ran afoul of media regulations. But he said Mr. Murdoch had not lost the good will of senior officials. "They still recognize his contributions," he said.

When Mr. Murdoch visited China late last year, he met Liu Yunshan, Mr. Ding's successor as propaganda chief, and Liu Qi, the party secretary of Beijing and the top coordinator for the 2008 Olympics.

The News Corporation also entered an alliance with China Mobile, the state-owned company that is the world's largest mobile communications operator. Mr. Liu of Phoenix said the move "could open a new, lucrative highway" to provide media content to China's 480 million mobile-phone users.

Wendi Murdoch has stepped up her role in China. She plotted a strategy for the News Corporation's social networking site, MySpace, to enter the Chinese market, people involved with the company said. The News Corporation decided to license the MySpace name to a local consortium of investors organized by Ms. Murdoch.

As a local venture, MySpace China, which began operations in the spring, abides by domestic censorship laws and the "self discipline" regime that governs proprietors of Chinese Web sites. Every page on the site has a link allowing users or monitors to "report inappropriate information" to the authorities. Microsoft, Google and Yahoo have made similar accommodations for their Web sites in China.

The Murdochs will soon be able to call Beijing home. Workers have nearly finished renovating their traditional courtyard-style house in Beijing's exclusive Beichizi district, a block from the Forbidden City. Beneath the steep-pitched roofs and wooden eaves of freshly coated vermilion and gold, the courtyard has an underground swimming pool and billiard room, according to people who have seen the design.

Plainclothes security officers linger on the street outside. One neighbor is the retired prime minister, Mr. Zhu, who invited Mr. Murdoch to become Chinese.

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