

# Fit to burst

**Andy Xie** says China should wean itself off the bubble economy that's now doing more harm than good, by tightening its money supply and restraining its rampaging state sector

Right before unveiling the new cabinet line-up, the Chinese government announced it would strictly enforce a 20 per cent capital gains tax on property sales. It was presented as a response to the resurging speculation in the market. Does it signal that the new government won't tolerate the property bubble? It is too early to say.

Speculation and corruption have come to dominate China's economy since 2007. The two form a temporary equilibrium to sustain growth, though at increasingly low efficiency, as reflected in the rising inflationary tendency of the economy.

China has depended on rapid monetary growth, through bank lending, to fund fixed-asset investment. A significant chunk of the monetary growth becomes corrupt income. The renminbi's appreciation outside China, and depreciation at home due to inflation, have pushed the surplus liquidity into the property market, which then becomes government revenue again.

Through recycling the corrupt income into the government's coffers, property



**China's strength is its vast, hard-working population; government overreach is its weakness**

speculation has been critical to the stability, albeit temporary, of China's current growth model. Hence, cutting off property speculation without stopping corruption would lead to currency devaluation and an economic hard landing.

The latest surge in speculation came after government action late last year. Starting in late 2011, the property market has collapsed in overdeveloped cities such as Ordos (鄂尔多斯), Wenzhou (温州) and Sanya (三亚). With negative sentiment spreading, the resulting fall in local government revenue led to action to rescue the market. Banks eased restrictions for second or third mortgages. State-owned enterprises borrowed to bid up land prices, pumping up price expectations. Inflation accelerated, scaring anyone with cash in hand. And, lastly, the renminbi began to hit new highs. These four forces have propelled property speculation again.

The same thing happened in 2008, though on a much larger scale. The global financial crisis spooked China's speculators and the market pretty much collapsed across the board. The ensuing stimulus policy used credit to reinflate the property bubble. This was done by expanding the M2 money supply, which doubled in four years. History will judge that the 2008 stimulus policy sent China's economy down the path to crisis.

One school of thought believes that speculation can be managed and used to develop the economy. China's confused policy response to speculation should be seen in that context. The property market is of course useful in keeping corrupt money inside the country; its outflow would devalue the currency. The costs are, however, bigger and longer-lasting.

China's wealth inequality is a result of the bubble economy, not market competition. In this light, some proposed remedies for redistribution are laughable. The problem is the system itself. How could adding another layer solve anything?

China has an absolute oversupply of property. The vast stock of sold but empty flats reflects the twin expectations of inflation at home and currency appreciation offshore. Prolonging the bubble will only bring a bigger bill in the end, mostly in bad loans. If bank recapitalisation can't be achieved without the help of devaluation, that could precipitate massive capital flight and an economic collapse.

The need to sustain growth to curb unemployment has been used to justify the policy bias in maintaining the bubble. But China has experienced years of blue-collar labour shortages. The bubble economy is good at creating blue-collar jobs. Hence, China today has a labour shortage and an inflation challenge. How can sustaining the current growth dynamic be justified?

Of course, the real reason for the bubble economy is that vested interests depend on it to get rich quick.

While such an economy harms people through inflation and damages the environment they live in, their acquiescence has been bought by the prospect of getting rich. The homes they occupy might make them rich; the stock market could double or triple. This "get rich quick" dream has bought China stability so far. But when people realise it will remain a dream for most, how will they react?

Now is a good time for China to consolidate. The labour shortages mean an economic downturn won't disrupt social stability. The resulting fall in inflation would enhance it. Food and water safety, air pollution, education and health care



are issues that require urgent attention. Leaders should root out speculation and corruption, and focus on livelihood issues.

The new government espouses China's revival as a national dream. Speculation and corruption, the old diseases in China's governance and society, have set back that dream before and could do so again. The new government needs to show resolve in dealing with both.

To hold down speculation and corruption, it should control money supply to a level consistent with price stability and hold down public-sector expansion. It is too tempting to keep monetary policy loose and manufacture price stability by massaging statistics. But the people can't be fooled all of the time. The recent surge in money supply isn't a good sign. Urgent action is needed.

Limiting public-sector expansion will ultimately determine China's future. Only

excessive government expansion can derail the three-decade-long growth trend. China's strength is its vast, hard-working population; government overreach is its weakness. The balance between the two will determine whether China prospers or not.

The government has announced some targets for holding down spending. It is a good sign. But, the most important measure is to cap fiscal expenditure and investment by state-owned enterprises.

In China, an expanding public sector is squeezing the growth of the household sector and private enterprises. The government should target zero growth for the public sector and give the country breathing space to recover. Only in this way can China's economy embark on another growth cycle.

Andy Xie is an independent economist

## Aspiring China

**Alice Wu** says defining the Chinese dream involves nothing short of redefining the substance of a country beloved of its people



Renaissance is making a comeback, and even Alexis de Tocqueville is enjoying something of a renaissance in China, where his book, *The Old Regime and the French Revolution*, has become a best-seller. And with Xi Jinping (习近平) cementing his "China dream" in his first address as president, it's only time before Tocqueville's *Democracy in America* will be flying off the shelves, too. As vague as Xi has allowed his dream of a Chinese renaissance to be, it has raised a lot of expectations, and sometimes fear.

Whether Xi's dream complements or jars with the American dream, we'll have to wait and see. For all the rhetoric about "Chinese exceptionalism", it remains unclear whether Xi was claiming uniqueness or superiority, a combination of both, or neither.

American exceptionalism has come to mean being "above" the rest of the world. It's the reason for US intervention abroad, whereas Tocqueville, with whom the term originated, simply defined it as the conditions, circumstances and position of the American people being unique, and hence, its inappropriateness to be a standard for the rest of the world.

Will Xi's Chinese exceptionalism be just a remix of the country's old tune – one that insists on being different, acting differently and being treated differently? Or is it a claim to superiority, even world dominance? The same old "we're not going to intervene" China would disappoint the world; but an overly assertive, tyrannical China would make many parts of the world hyperventilate.

But instead of conjuring images of a fire-breathing dragon, it is probably safer to assume Xi has just been hard at work, examining what needs fixing, and reading Tocqueville. A lot of work remains, hence Xi's calls for party reforms, the weeding out of corruption, and moulding a bureaucracy that works to make its people's pursuit of happiness easier, not harder. While *The Old Regime and the French Revolution* may have shed light on the need for Xi and his new colleagues to address growing social discontent, let's hope *Democracy in America* will, in time, also inspire.

In the book, a section on "Why the Americans show themselves so restive in the midst of their well-being" talks of why, even when the country and its citizens are prospering, "agitation [exists] in the very midst of their abundance".

Prosperity, as Xi's predecessors understood it, is not enough. It may well be that Xi's dream calls for a nation genuinely loved by its people. And it's going to have to begin with serious reforms in basic things like food safety.

Xi's call for unity is what Tocqueville would prescribe in dealing with the sort of individualism he is a critic of. "People's yearning for a good and beautiful life", in Xi's words, is universal enough a desire for anyone to understand and not feel threatened by, and that dream may be Xi's attempt to rally people towards a common goal. But it also means the people must be given a seat at his table.

As Xi told Chief Executive Leung Chun-ying, the key for governance lies in implementation. The same applies for the Chinese dream. And managing expectations will make this dream easier to attain.

Alice Wu is a political consultant and a former associate director of the Asia Pacific Media Network at UCLA

## One small change of mindset, a big step for all

**Fern Ngai** says that, often, employing people with disabilities requires very little adjustment

York Chow Yat-ngok's appointment as the new head of the Equal Opportunities Commission should be a positive step for people with disabilities since he has a wealth of experience serving voluntary organisations that promote their rights.

This, together with Chief Executive Leung Chun-ying's proclamation in his policy address that people can only be truly integrated into their community through employment, should bode well in terms of enabling people with disabilities to get equal access to employment.

In theory, they have had this right since Hong Kong became a signatory to the 2006 UN Convention on the Rights of Persons with Disabilities.

But the reality is different. Many employers are daunted by the prospect of hiring people with disabilities. They are nervous about whether these potential employees can fulfil the requirements of the job, how they will interact with other employees, and what changes may be needed to the physical environment. In addition, people with disabilities often lack confidence to apply for jobs.

Pragmatic initiatives are therefore needed to educate both employers and potential employees with disabilities. That is why Community Business has initiated "Open to You", Hong Kong's first inclusive recruitment event that takes place today, to facilitate direct introductions between blue chip companies and a talent pool of

university students with disabilities.

At a workshop for companies, one participant recounted how colleagues were concerned about hiring a man who uses a wheelchair, in case he found it difficult to get around. But she explained that, as he had represented Hong Kong in the Paralympics, this was unlikely to be a problem. She was right.

Another explained that his company spent so long discussing what they should be doing that finally they decided to just jump in and figure it out as they went along. This meant, for example, putting up braille stickers in the lifts and buying a tablet with software that converts voice to text so a hearing-impaired employee could follow meetings more easily. None of these things was difficult or expensive and the individuals employed have been a success.

These stories should show companies that, often, only minor changes are required. "Reasonable adjustments" is the term coined to describe what is expected from employment and educational institutions to enable equality of access for people with disabilities, and often they really are very reasonable and unexpectedly small, with high rewards.

If the government can get behind this message, Hong Kong can make great strides in this area.

Fern Ngai is CEO of Community Business

## How China's purchasing power can save the forests

**Kees Kodde** says its companies can choose sustainably harvested wood

Worldwide, 13 million hectares of forests are disappearing every year. With so many of the world's forests already destroyed, we urgently need to protect what is left.

The EU has adopted new legislation recently to stop imports of illegal timber. Earlier, the US and Australia adopted similar legislation. It's time for China to reduce its footprint on our remaining rainforests.

Much has improved in China's forest policies. The country has actually increased its forest cover over the past decade. But, at the same time, it is importing ever-increasing volumes of commodities that contribute to global forest destruction.

The earth cannot sustain life without healthy forests. They are home to over two-thirds of the world's species. They are the green lungs of the planet, supplying us with oxygen and helping to balance rainfall and the climate. The three largest remaining rainforests of the world are the Amazon, the Congo and the rainforests of Indonesia; all are under siege.

The main drivers of deforestation are different in each. But what they have in common is an increasing focus on China as the main export destination. In the Amazon, expanding cattle fields and soybean plantations have led to serious deforestation. Seventy per cent of the soybeans produced in Brazil are exported to China, feeding its burgeoning industry of pigs and poultry. In the Congo, logging for

timber has had a devastating impact on forest areas. Most of this logging is illegal. And 40 per cent of the timber exported from the Democratic Republic of Congo reaches Chinese shores.

In Indonesia, the two biggest causes of deforestation are pulp and paper, and palm oil plantations, with nearly half of exports of pulp and paper going to China. China has become the



**The Chinese government should take a stand against illegal timber imports**

second-largest importer of palm oil worldwide.

Chinese companies and the government can clean up their act. They do not have to participate in deforestation. Companies buying commodities such as palm oil that are often connected to deforestation can demand guarantees from their suppliers about their products. Businesses that source timber products should buy only from forests that are managed ecologically and sustainably. Currently, the trademark "Forest Stewardship Council" provides the best guarantee for wood products that they do not come from forest destruction.

The Chinese government should also take a stand against

illegal timber imports. Interpol estimates that up to 30 per cent of the worldwide timber trade is illegal and billions in tax revenues are lost as a result. China now accounts for about half of the worldwide imports of wood products. A major share of these are processed in China into furniture and paper products and then re-exported.

Beijing should put measures in place to stop the trade in illegal timber products. There are already indications that exports of illegal timber are being redirected to China following the moves by the EU, the US and Australia.

But China in turn re-exports many wood products to the EU and the US and some inevitably contain illegal timber.

It is therefore in Chinese companies' best interests to curb illegal timber imports, before valuable export destinations take action.

Countries producing timber are often those that also struggle with poverty and corruption. China can help these countries bring their logging sector under control, collect the lost tax revenues and help save the forests.

After all, when old-growth forest and the species that live in it are lost, they are lost forever.

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## A shame to forget the poorest of the poor

**Greg Duly** says we must address inequalities, particularly among children, when setting goals

All eyes will be on Bali this week as Indonesian President Susilo Bambang Yudhoyono hosts a meeting that will define the next global development agenda. The UN High Level Panel for the post-2015 agenda, co-chaired by Yudhoyono, has put ending extreme poverty on their agenda – but this goal will only be realised if the world tackles rising inequality.

Overall, the period covered by the UN Millennium Development Goals has been an unprecedented human development success story. Since 1990, the world has seen 600 million people lifted out of poverty, 56 million more children going to school and 14,000 fewer children dying from preventable causes each day. Indeed, the evidence shows that political will and commitment can bring about real change.

However, vast progress at the aggregate level hides unequal progress. In its report, "Born Equal", Save the Children revealed that the bulk of improvements have actually been concentrated in the wealthiest segments of society across all regions of the world.

In Indonesia, for example, almost all women in the richest 20 per cent now have a skilled attendant at birth as opposed to just 40 per cent in the poorest fifth. Additionally, despite overall improvements across all nutrition indicators, more Indonesian children in the poorest households experienced malnutrition between 2007 and 2010.

How has this happened and why is the situation worsening for the poorest and most vulnerable children? Aggregate targets in the current set of global development goals have led many governments to focus on those easiest to reach. This means that those close to the poverty line experience improvements while the very poorest are left behind.

Children are the hardest hit by inequality as they depend on their parents and governments to help them grow and develop. Any rise in the price of food will hurt their meals the most; any change in health budgets could see them die from preventable causes; and poor-quality schools could keep them in the poverty cycle.

To reverse the trend of rising inequality, national social protection schemes must ensure wide coverage to quality services; health and education services must be made available in all regions to all groups of society; and economic growth plans must maximise employment opportunities for the poor.

In Bali this week, the UN panel has the opportunity to set ambitious objectives to reduce the gaps in progress between rich and poor, boys and girls, rural and urban dwellers, the young, elderly and disabled, and ethnic and religious groups in all societies. Because every child is born equal and no child is born to die or suffer.

Greg Duly is regional director for Save the Children