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INSIGHT

Turbulence ahead

Andy Xie says Beijing's stimulus measures are not aimed at growth, but to maintain stability

China's economy is sailing into strong headwinds in 2019. As household debt mounted, the property market turned downwards last year and auto sales fell for the first time in at least two decades. Property and car sales account for one-fifth of the country's gross domestic product. Although China's foreign trade rose by 10 per cent last year, its growth rate will slip this year as the global economy softens and Washington's trade war with Beijing begins to bite. As exports also account for one-fifth of GDP, any slowdown there would hurt the economy. Obviously, with all this negative news, investment will also cool.

To stimulate the economy, Beijing is cutting banks' reserve requirement ratios and launching infrastructure initiatives. Neither is likely to revive growth. Chinese debt, unofficially 300 per cent of GDP, is too high for any debt-led growth policy to be effective. Currently, infrastructure spending is around one-fifth of GDP. It is hard to see how a few projects can move the needle. It appears the government's goal is stability, especially in the financial system and the labour market, not growth.

As the property market tips over, loan repayments become more sporadic. The goal of the monetary policy is probably to keep lending institutions liquid. This policy could be undermined only by massive capital flight. But as long as the Great Wall of capital control is solid, China will remain stable for the foreseeable future.

However, a growth recession, an unpleasant by-product of the muddled strategy, may last for many years. The property bubble has been around for about 12 years. Excesses of debt and inventory are enormous and would take a long time to digest.

Residential properties under construction add up to close to six billion square metres, an inventory that would have taken about four years to digest at the peak of the bubble and would take many more years in a cooling market. In addition, tens of millions of properties could have been held for speculation. When they, too, are put on the market, the inventory overhang might stick around for a decade or longer. How much it would drag on growth is easy to imagine.

> **Beijing is hoping to sustain a high export growth rate, and just wait for good growth to come back**

Growth and development are not identical. China invests about half of its GDP. Even if the economy doesn't grow, there will be a lot more assets on the ground in 10 years. People who go back to visit a decade later would see a very different country. This is why stagnation may not be a bad choice for the government.

As long as there are lots of assets, China could increase the size of the economy with the right reforms. It is just that the right reforms are not politically desirable for the foreseeable future.

A growth recession is deflationary in the short term. As commodity and property prices fall, many industries have room to cut prices. But China's economy is fundamentally inflationary. Its labour shortage is very severe. As the labour force continues to contract, things will get worse. The rapid rise in blue-collar wages can't be absorbed by productivity growth. The latest investment in the internet economy, for example, is increasing demand for blue-collar labour while decreasing economies of scale. This is why any rise in labour costs would feed inflation. And this is why consumption prices are rising sharply in a weakening economy, though official statistics don't reflecting that. Over the medium term, stagflation may characterise China's macroeconomy.

China has relied on export and investment for the past four decades. A property bubble is a leveraging tool useful for investing long before demand materialises. Beijing is hoping to sustain a high export growth rate, and just wait for good growth to come back, even though it may be a long wait. It has worked before. But it won't work this time.

China's exports per capita stand at about US$1,800, low by East Asian standards. Japan's figure is about US$6,000 and South Korea's, above US$10,000. But China's population is more than 10 times Japan's and 20 times South Korea's. If China were to reach Japan's levels, its total exports would exceed US$8 trillion, similar to the total manufacturing value in the rest of the world. But, obviously, if Beijing were to continue its export model, it would be highly disruptive to the global economy. Furthermore, economies which are rapidly deindustrialising couldn't pay for rising imports. While analysts suggest Beijing needs to abandon its invest-and-export model, it isn't likely to change any time soon. This is why trade frictions will stay for a long time to come.

While China's story in 2019 may be one of a growth recession without blow-ups, the rest of the world may not be so lucky. I wrote about the weakest links in the global financial system last month. In the event of a blow-up, the country's growth recession could turn into something worse. Still, it has the ability to keep capital flight below the trade surplus, which is key to keeping the financial system liquid. Crisis or not, China is likely to remain a large economy with large investment but low growth. While the sentiment will swing wildly through 2019, the country will remain pretty much the same.

China will change only when the global economy experiences a severe and lasting recession that cuts the country's exports dramatically and for good. Only a dollar crisis would do that. The US is printing dollars to finance its profligacy. It will keep doing so until confidence in the dollar collapses. That day isn't near. Indeed, if a financial crisis erupts elsewhere, the dollar will rise, which would give the US even more room to print money. We are stuck with malaise, but no real outbreak, in 2019.

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Wake-up call for pro-government camp legislators

Alice Wu says the chief executive once congratulated herself for improving relations with Legco, but her changes to welfare payments for elderly have united rival legislators against her

Only a little more than six months ago, Chief Executive Carrie Lam Cheng Yuet-ngor gave herself a big hearty pat on the back for a job well done. In her self-assessment of the city's governance in her first year in office, she said on July 1 that she was satisfied with, among other things, the improved relationship with the legislature.

By the look of things, any perceived improvement seems to have gone down the drain, along with her approval ratings, which, according to a recent public opinion survey, is linked to her sheltering the political freeloader on her team. However, we can't blame everything on Justice Secretary Teresa Cheng Yeuk-wah, since Lam did her share to poison the relationship.

It's hard to imagine why Lam would expect that increasing the minimum age from 60 to 65 for elderly Comprehensive Social Security Assistance (CSSA) payments would go without incident. But, by the look of things, Lam wasn't feigning "shock" over the cross-political-spectrum opposition to the government's plans to take from the elderly poor.

Lam recently claimed she had given her secretary for justice some public relations pointers on public perception, but did she forget to practice what she preached?

Surely, there are no political gains to be had from being seen as insisting on taking from the most helpless and vulnerable in society.

And her seemingly endless supply of insensitive comments – like how she, too, is "old" but still works 10 hours a day – certainly doesn't help. It's simply political suicide for any directly elected lawmaker to not raise hell over it.

> **They have been treated as cheap rubber stamps by the government before, and it would be wise for them to revisit lessons from history**

Why didn't the chief executive call for a meeting with pro-establishment lawmakers before the vote on a non-binding motion for her administration to shelve the age threshold increase? In a dramatic display in the Legislative Council, bitter political rivals crossed the aisle and temporarily buried their many hatchets to join forces in opposition. Lam may have inadvertently facilitated the greatest political reconciliation in the chamber in recent years.

This political crisis was brought on by Lam herself. In reality, it is a shameless display of how the government takes the pro-establishment camp's unwavering support for granted. It is also, more importantly, an important wake-up call for the entire camp.

They have been treated as cheap rubber stamps by the government before, and it would be wise for them to revisit lessons from history.

Did they, for example, learn anything from the political crisis brought on by the government's attempt to ram through Article 23 national security legislation in 2003 – and the political fallout that resulted in a devastating electoral setback for the Democratic Alliance for the Betterment and Progress of Hong Kong for its support for the administration?

One clear lesson would be the urgent need to take steps to redefine their relationship with a government that obviously takes advantage of them and does not care about the political price they have to pay for the support that is taken for granted.

The late chairman of the DAB, Ma Lik, said in 2003 that his party had a lot of serious soul-searching to do, and that it must retune itself with the voice of the people, realign itself with the will of the people and reposition itself in its relationship with the government.

Ma's advice is as relevant today as it was back then. Instead of having to suffer at the polls first, pro-establishment parties must act now if they wishes to avoid any repeats of history.

With a pretty bleak economic outlook this year and an apathetic and out-of-touch government, the perfect political storm is brewing once again.

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Chief Executive Carrie Lam attends a Legislative Council question-and-answer session. Photo: Sam Tsang

City planners' visions for future ignore quality of life

Barry Wilson says our development and management model creates miserable places to live

Among the plethora of statistics, benchmarks and generalities in Hong Kong 2030 Plus, the government's policy vision document, one word is conspicuous in its almost total absence – quality. The document says its vision is for Hong Kong "to become a liveable, competitive and sustainable Asia's World City" but gives little clue as to how to get there, providing no measurable liveability targets and not specifying what liveable actually means or whose aspirations these might be.

By contrast, Edinburgh initiated a 2050 City Vision campaign in 2016 which sparked public discussion about the future of the city and its residents' aspirations and concerns. In Vancouver, more than 35,000 people took part in the development of the Greenest City Action Plan in 2011, which set clear quality goals with measurable and attainable targets towards becoming the "greenest city in the world by 2020". The city has committed to ensuring that 100 per cent of its energy will come from renewable sources by 2050.

Singapore can point to its 1967 "garden city" vision as the original quality driver of its transformation into, according to Mercer, Asia's most liveable city. The five focus initiatives of its Sustainable Singapore Blueprint really highlight the city's emphasis on quality of life: "an active and gracious community"; "towards a zero waste nation"; "'eco smart' endearing towns"; "a leading green economy"; and, "a 'car-lite' Singapore".

The focus is on building housing districts, such as Punggol Northsore, Kampong Bugis and Marina South, using innovative design and technology. Old estates are being rejuvenated by introducing sustainability features through programmes such as Remaking Our Heartland, which build on the distinct personality of each estate, and HDB Greenprint, which encourages the public to propose ideas to enhance green living.

The introduction of better recycling infrastructure such as centralised chutes for all new Housing and Development Board flats has been combined with district-wide pneumatic waste conveyance systems, which transport solid waste through underground pipes, and an integrated waste management facility, which can segregate recyclables from waste. The blueprint also highlights providing a better cycling and walking environment with more car-free spaces aimed at transitioning to large-scale adoption of driverless vehicles and an electric car-sharing scheme.

Hong Kong 2030 Plus is now shaping our future, including the decision to create a new East Lantau Metropolis. Its three aspirations – "planning for a liveable high-density city", "embracing new economic challenges and opportunities" and "creating capacity for sustainable growth" – are all well and good, but where are the specific living quality targets to meet them, with steps to get Hongkongers involved? Does this document really reflect peoples' hopes or just development inertia? Were the right questions even being asked?

The future being planned for us, not with us, fails to go much beyond catering to the most basic linear projections of population change and holding the fanciful notion that Hong Kong will continue to grow in much the same way as it has always done.

The speed of current technological change has no historical precedent and is disrupting almost every industry around the world. The 2030 Plus plan fails to identify and respond to the paradigm shift arriving with automated transport, for instance, and inadequately references the implications of increased integration with the mainland towards 2047.

> **If people could live on bridges and roads, then Hong Kong would be a world beater**

The plan exists in isolation from the development of the "Greater Bay Area", yet back in 2007, when the original Hong Kong 2030 Planning Vision and Strategy was released, population change, integration and technology shifts were all highlighted as key issues. What got lost in the intervening 10 years?

The happiness and quality indexes don't lie. If people could live on bridges and roads, then Hong Kong would be a world beater. Our development and management model, however, engineers miserable places to live, planned not around people but vehicles. Between 2003 and 2013, the number of vehicles on Hong Kong's roads rose by 30 per cent despite the known impacts to social equity and population health. Whereas cities such as Paris are currently preparing plans to make public transit entirely free and banish petrol cars by 2030, the ambition of Hong Kong's Clean Air Plan goes no further than phasing out older diesel commercial vehicles and tightening taxi and bus exhaust emissions.

Meanwhile, private car ownership in the US is expected to decrease 80 per cent by 2030, with massive stranded assets in traditional motor vehicle infrastructure. Even on the mainland, car sales dropped 6 per cent last year, the first decline in 28 years. The vast amount of land in Hong Kong allocated to roads, parking, fuel stations and transport depots needs urgent reassessment. All development should based on creating car-light environments while residential prototypes for a future-proof housing stock should be put in place.

Land development should only be based on a much more sophisticated and integrated quality vision of a future that goes well beyond the one set out in the generalisations of 2030 Plus. Our development process is not quality-led, it is purely infrastructure for growth and it aims, first and foremost, to maintain jobs for the many and profits for the few, while obtaining the cheapest development for the taxpayer. You get what you pay for.

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