

## INSIGHT

## Bright future

**G. Bin Zhao** says the pervasive gloom today over the Chinese economy is obscuring the positive longer-term trends that suggest the nation is on track to become a powerhouse in 20 years

The Chinese economy is in decline, the stock market remains in a downturn, the property market faces strict macro controls, and the purchasing managers' index for August has fallen to a new nine-month low, all of which is causing widespread concern. Many people at home and abroad have started to worry about China's economic prospects. For example, there is heated debate over whether China will suffer a "hard" or "soft" landing.

I would echo the comments of Stephen Roach, the former chairman of Morgan Stanley Asia, who wrote recently: "These worries are overblown. Yes, China's economy has slowed. But the slowdown has been contained, and will likely remain so for the foreseeable future."

I can't predict when the economy will rebound, but perhaps it is time for analysts to look at the longer term. Where will China stand in 20 years?

First, let's examine the prediction that its gross domestic product will become the



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largest in the world within a decade, and its economy will continue to improve over the next two decades. *The Economist* expects Chinese GDP to surpass America's by 2018, and even if China's growth rate were to drop to 5 per cent, this transition would only be delayed until 2021. Therefore, there is little need to worry about current GDP growth falling to 8 per cent. Other forecasts of when the transition will happen include 2016 (the International Monetary Fund) and 2020 (the Chinese Academy of Social Sciences). However, even if China's total economy exceeds that of the US, it will not mean China is stronger economically – it is harder to predict when China's comprehensive national strength will surpass that of the US.

Second, the renminbi is forecast to become freely convertible within 10 years and possibly will be competing with the US dollar in two decades. In recent discussions, it was thought this first step could be realised in five years. I believe it will prob-

ably happen by 2020, or when Chinese GDP becomes the largest in the world. The renminbi will surpass the euro and the yen to become the second-strongest global currency within three to five years after it becomes freely convertible. But there are too many uncertainties to predict whether it can challenge the dollar as the international reserve currency in the next two decades.

Third, it is said that Hong Kong is likely to exceed New York as a global financial centre within 20 years. As China's economy continues to grow and develop, the realisation of the first two predictions will provide a great boost for Hong Kong, and it is expected to gradually become the dominant global financial centre. To prepare for this, Hong Kong needs to deepen its co-operation with Guangdong, promoting Shenzhen as Hong Kong's "backyard", and, within five to 10 years, cancelling the restrictions on mainland residents who want to travel to Hong Kong, or, if necessary, retain only the work permit system.

It also needs to continuously enhance the level of financial co-operation with the mainland. For example, renminbi-denominated stocks need to be issued in Hong Kong as soon as possible.

Fourth, some predict that Chinese enterprises will make up more than half of the Fortune Global 500 companies in two decades, and China will be a global manufacturing power. This year, there are 73 Chinese companies (79 if Taiwanese companies are included) on the list, a significant increase from only 11 a decade ago. Unfortunately, many of these Chinese enterprises have only an advantage of scale and are not real industry leaders; there are not many world-renowned brands within this select group. However, quantitative change can lead to qualitative change; these enterprises can be transformed into truly leading multinational companies within two decades.

Fifth, China is expected to make significant progress in the field of science, technology and education, and the University of Hong Kong is likely to be ranked among the top 10 in the world within two decades. According to a study by the science and technology think tank Battelle, China currently accounts for about 15 per cent of the total share of global research and development spending, and it will surpass the US spending within a decade. In addition, according to figures from the State Intellectual Property Office of China, total patent applications were more than those of Japan and the US in 2011.



In 20 years, China will almost certainly have made significant progress in science, technology and education. Research institutions and universities are the cradle for scientific and technological development. Hence, the international stature of Chinese universities should rise: The University of Hong Kong can surely rank among the top 10 in the world, while Beijing's Peking and Tsinghua universities are likely to be among the top 20.

Finally, China can narrow the gap with the US in the aerospace industry within two decades.

Without strong scientific, technological and industrial strength, progress in this industry will not be possible. It also needs strong support from communications, electronics, equipment, materials, chemi-

cal, metallurgy and other industries. Although China's achievements in the aerospace industry have been impressive in recent years, experts say it is still at least 30 years behind the US.

This is changing, and along with the updating and upgrading of related industries, as well as continuous national investment, China will become a space power second only to the US in 20 years. China may not be able to surpass the US, but it will surely be getting closer.

Thus, there is every reason to be optimistic about China's economic prospects over the next two decades.

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## Back-seat drivers

**Alice Wu** wonders why female lawmakers had to step back in the Legco election so their male colleagues could take centre stage



Women just seem to be taking continuous beatings in this town. Eighteen years ago, then lawmaker Christine Loh Kung-wai fought for the inheritance rights of indigenous women of the New Territories and was threatened with rape. Today, single women are called "leftover women". To add insult to injury, Wong Sing-chi, a lawmaker who just lost his bid for re-election, asked during his campaign whether single women were making a lifestyle choice to be promiscuous.

Sure, we have come a long way since Loh was threatened for speaking out: over the past decade, women legislators here have even enjoyed far higher popularity ratings than their male counterparts.

But those tracks in politics have been all but wiped out in the Legislative Council election. As women, we have somehow been trained to be flattered whenever we hear this: behind every successful man is a woman. But never had I imagined this to be taken literally as an election campaign strategy.

It really is hard not to notice how women were relegated to taking a back seat. Two prominent examples were the Civic Party's Tanya Chan and Audrey Eu Yuet-mee. The Hong Kong Island lawmakers split up in this election to prop up two men – Chan Ka-lok in Hong Kong Island and Kwok Ka-ki in New Territories West – in a risky electoral gamble to maximise votes. The women's influence was used, to all intents and purposes, to "fluff up" the men's political careers.

And so, overnight, Hong Kong Island residents went from having four women representing them in the legislature to just two. It was huge price to pay to get the professor and the doctor into the legislature.

Chan Ka-lok had better think long and hard about the cost of getting him elected; as an academic, he should be familiar with a 2010 University of Chicago and Stanford University joint study, "The Jackie (and Jill) Robinson effect: Why do congresswomen outperform congressmen?" The study didn't find women to be smarter than men. What it found was that since it is more difficult for congresswomen to get elected, only the smartest and most ambitious succeed and, hence, they outperform the men.

The point is, women find it much harder to get elected. They are the ones who need the boost, not the men – but yet, in Hong Kong, we see the reverse.

Two other women who played a key role were People Power's Erica Yuen Mi-ming, who was instrumental in Raymond Chan Chi-chuen's successful bid, and Selina Chow Liang Shuk-ye, who stood behind James Tien Pei-chun of the Liberal Party. None of these women were elected.

It gets worse: in the traditional functional constituencies, we went from four women to 100 per cent testosterone.

I ask not for men to give up their seats for women, but only for us – whatever our political leanings – to be more gender conscious and not stand by when women are forced to take a back seat.

Politics is a tough world for both men and women. It's just a lot tougher for women. Take Loh again: named a *Time* magazine "hero of the environment" in 2007, she can only be an undersecretary.

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

## In a global economy of low interest rates, why do saving patterns differ?

**Keyu Jin** says the difficulty of credit access in China may explain the choices of its army of savers

Ever since the integration of emerging markets into the global economy began in the early 1990s, three striking trends have emerged: a divergence in private savings rates between the industrialised core and the emerging periphery (the former experiencing a steady decline, and the latter a sharp rise); large global imbalances between the two regions; and a drop in interest rates worldwide.

But, while global imbalances have preoccupied many observers, few have sought to explain the divergence in world savings behaviour.

In 1988, the household savings rate in China and the United States was roughly equal, at about 5 per cent. Yet, by 2007, China's household savings rate had risen to a staggering 30 per cent, compared to just 2.5 per cent in the US. The pattern is not uncharacteristic of other industrialised countries relative to emerging markets over the past two decades.

Savings behaviour reacts to changes in interest rates, which have fallen steadily over the past 20 years to today's record-low levels. But how can savings patterns be so different – often opposite – in globalised economies that are integrated into world capital markets?

The answer may be that credit markets are more developed in advanced economies than they are in emerging countries, particularly in terms of the degree to which households are able to borrow. Of course, one might argue that Asian thrift and American

profligacy merely reflect asymmetric demands for credit: Asians are intrinsically more reluctant to borrow. In that case, however, the vast differences in household debt – ranging from 25 per cent of gross domestic product in emerging Asia (Southeast Asia, mainland China, India, Hong Kong and South Korea) to more than 90 per cent in the US and other Anglo-Saxon economies (including Australia, Canada, Ireland, New Zealand and Britain) – would reflect only a dissimilarity in taste.

A more plausible explanation is that institutional differences in the ability to borrow dictate to some extent the disparity in savings rates across countries. The argument is simple: all economies have both borrowers and savers, and changes in the cost of borrowing affect them differently. When interest rates decline, borrowers are able to borrow more. Savers, on the other hand, may be compelled to save more in the face of shrinking interest income.

At the macro level, a less credit-constrained economy (with a large mass of effective borrowers) could then experience a fall in the savings rate as borrowing rose. However, in a country with a large mass of effective savers, the savings rate can rise, rather than fall. This asymmetry in savings patterns might thus reflect the simple fact that credit-constrained economies are less sensitive to drops in the cost of borrowing relative to less constrained economies.

In joint research with Nicolas

Coeurdacier and Stéphane Guibaud, we show that economic data supports this view. Borrowers and savers are naturally grouped by age. The young normally face low, current wage income, but faster growth in future income, and would ideally borrow against future income to augment consumption today and to invest in education. The middle-aged, preparing for retirement, are likely to be the economy's savers. If asymmetric credit constraints are indeed important, young borrowers and middle-aged savers will display distinct patterns in constrained versus less-constrained economies.

In fact, there was a remarkable contrast in savings behaviour across age groups in China and the US in the period 1992-2009. For young Americans (those under 25), the borrowing rate rose by 10 percentage points more than the borrowing rate of young Chinese, while the savings rate of the Chinese working-age population (ages 35-54) rose by about 17 percentage points more than the savings rate of their American counterparts.

Another implication of this view is that the steep rise in savings in China is largely driven by a rise in the savings rate of middle-aged Chinese (rather than a fall in the borrowing rate of the young). Conversely, the fall in savings in the US is largely due to higher borrowing by the young (rather than a fall in middle-aged Americans' savings rate).

Indeed, of the 20.2-

percentage-point increase in aggregate household savings (as a share of GDP) in China from 1992 to 2009, the middle-aged cohort accounted for more than 60 per cent. In the US, which experienced a 1.8-percentage-point decline in aggregate savings as a share of GDP, the savings-to-GDP ratio among the young declined by 1.25 percentage points, whereas the figure for middle-aged savers actually increased by about 1.5 percentage points.

Apart from accounting for the global divergence in savings rates, tight credit constraints in China might explain the country's high, and rising, savings rate – especially as the large rise in national savings is attributable mostly to household savings. This would mean that China's much-publicised effort to boost domestic consumption might in fact call for appropriate credit-market reforms.

US Federal Reserve Board chairman Ben Bernanke's notion of a "global savings glut" is a commonly cited explanation for falling world interest rates. Credit constraints in fast-growing developing economies may be the reason why the glut emerged in the first place.

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## After the election, it's time to crunch the numbers for reform

**Mike Rowse** says 47 legislators must now agree on democratisation plan

Former US president Bill Clinton said in his speech to the Democratic convention nominating Barack Obama for re-election that he always gave a one-word answer when people asked how he had managed to balance the budget during his own second term: arithmetic.

I think we can give a similar response in answer to the question why the biggest loser from the recent Legislative Council election was none of the political parties or individuals vying for office, but rather our very own Secretary for Constitutional and Mainland Affairs Raymond Tam Chi-yuen. Tam needs to bring forward proposals to provide for democratic election of the chief executive in 2017, and the Legislative Council in 2020. Moreover, to achieve the latter, he must use the 2016 Legco election as a stepping stone.

The relevant provisions of the Basic Law specify that, in order to make the necessary amendments to the electoral laws, the government needs to muster a two-thirds majority of all Legco members. Given that we now have 70 legislators, that means 47 votes, and Tam hasn't got them. In order to get them, he is going to have to do a deal with someone, and that will not be easy.

The 2010 reform package, which led to the addition of five extra seats in the geographical constituencies and the creation of five new "super" seats in the functional constituency section, could only be passed because the Democratic Party members

broke ranks from their fellow pan-democrats, acted like statesmen, and reached a mature compromise agreement.

It was the right thing to do, but as so often in life, doing the right thing carried a price tag. Support for the Democratic Party declined in this election, against the relative rise of the nihilists in the People Power/League of Social Democrats fringe.

Where, then, is the incentive for any of the moderate democrats to come to the table again and do another deal with the administration? Clearly the Democratic Party, still bruised from the pummelling it took this year, is not going to go it alone a second time. Its members will want to have the cover of their fellow democrats in the Civic Party and the Labour Party.

I can think of only one concession the administration could offer which might bring all three parties to the table, and that is a promise to abolish the functional constituencies altogether.

Such a package would carry its own risks. The concession needed to secure the extra votes from the pan-democratic camp could result in the loss of some of the pro-establishment votes among the existing functional seat representatives.

After all, in no fewer than 16 out of the 30 "not very democratic" functional constituencies, the member concerned was returned unopposed this time. Indeed, at least one constituency has seen no contest, and several others nearly none, since 1997. Those

16, plus any other members out to cause trouble, could also put the 47 threshold at risk.

One way to soften the blow might be to give them one more ride on the gravy train: only significant reform of the functional constituencies in 2016, with outright abolition deferred until 2020.

In case any of the stakeholders are contemplating a scenario without any progress at all in 2016, I can only entreat them to think through the consequences. For the government, it would mean a failure to follow through on the Beijing promises to Hong Kong people of steady progress towards full democratisation, with key milestones in 2017 and 2020.

Moderate democratic forces would have shown themselves to be no more effective in the real world than their extremist rivals, who would be sure to make further gains in future elections. Meanwhile, if progress could not be achieved by compromise and common sense, there would be a strong temptation for anyone with a grievance to take their supporters onto the streets.

That is not "Hong Kong people ruling Hong Kong". Rather, it would mean Hong Kong was becoming ungovernable. So get out there, Mr Tam, and get those 47 votes. It's all a matter of arithmetic.

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