

INSIGHT

Gently does it

G. Bin Zhao says the Chinese government will adopt a quiet approach to deflating the dangerous real estate bubble, given the huge impact a crash could have on the economy

Despite increasingly strict regulations, investment in China's real estate industry, as well as sales totals and prices, still achieved high levels of growth last year. During the Communist Party's third plenum, the new leadership announced reform measures in a number of areas, but many people were left puzzled by the fact that the real estate sector – the source of the most vocal public complaints – didn't appear to fall within the scope of these new policies.

The real estate bubble continued to grow last year, furthering the unequal distribution of wealth and increasing social tension, and leading many to question the determination of the government to build a more just and equitable society.

The latest official figures show that, last year, national investment in real estate development hit 8.6 trillion yuan (HK\$11 trillion), an increase of 19.8 per cent over 2012, accounting for about 20 per cent of investment in fixed assets.

It is well known that the real estate bubble is harmful to the Chinese economy because it attracts and holds capital, talent and other resources that could be better used to develop other important industries, adding to the difficulties of transforming the nation's economy. In some ways, it's like an unexploded bomb; handled carelessly, it could cause economic devastation or, at the very least, lead to an incident similar to the US subprime mortgage crisis.

Many people are concerned that the new leadership has introduced very few important regulatory measures to deal with this impending crisis. The third plenum said little on the regulation of real estate, save for the need "to speed up real estate tax legislation and introduce timely reforms".

Previous leaders tried hard to regulate rising real estate prices, without success. By contrast, the current leadership seems intent to downplay the importance of this issue. Li Keqiang (李克强) has never publicly mentioned the real estate industry since he became premier, while President Xi Jinping (习近平) only briefly discussed the core rules for real estate policy last October during a Politburo study. Still, some of the government's recent policies do provide clues about these core rules.

Overall, the government aims to build a market-based system for housing to meet multiple levels of demand, while ensuring the provision of basic housing. This is consistent with the main thrust of the third plenum, that "the market must play a decisive role in allocating resources". The



objective is to ensure that everyone's basic housing needs are met.

In other words, the government will not directly intervene in the market, but it will provide basic housing for low-income groups through the development of public rental housing, low-rent housing, and the transformation of various shanty towns.

In addition, the government will work to establish a standardised and stable



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housing supply system. While increasing supply, it will be necessary to make adjustments as people's needs change. Meanwhile, the total supply of land for housing should be increased, with priority going to building affordable housing.

Clearly, real estate policy has undergone a fundamental change. However, many developers and investors believe leaders are not really talking about "regulation", and therefore mistakenly think policies are becoming looser.

I believe senior leaders realise the significant dangers of a property bubble, and this will be reflected in real estate policies for this year.

Leaders will seek to avoid causing a massive shock to the market with the implementation of any new policies, considering the impact property has on the overall economy. Last year, for example, income from real estate and related land sales and construction was 6.6 trillion yuan, accounting for 36.5 per cent of national public finances, also contributing more than 50 per cent of local government revenue. Therefore, new policy implementation will be gradual and modest. This has contributed to some of the misunderstanding among the public.

Second, once the overall objectives are formally determined, that is, to meet the basic needs of the public, investment behaviour in the market will be limited. The core reason for China's real estate bubble lies in the fact that the market has deviated from the basic demand and supply relationship and become an investment market. Thus, the most effective policy will be to let the market return to its fundamental state; this explains why Xi said regulating housing demand is important.

Also, one should not underestimate the power of the decision during the third plenum to accelerate the introduction of property tax legislation and other measures. Property taxes are implemented in many countries and have proved very effective. They not only inhibit investment behaviour, but also create a substantial income base for local governments. Pilot tax schemes have been running in Shanghai and Chongqing (重庆) since 2011. Expanding the scope, and the level of tax, will have a profound impact on the market.

In addition, some analysts believe that the plan to create a nationwide unified real estate registration system may lead some people to sell their real estate holdings, particularly those obtained through unlawful activities.

Finally, while the three super-tall skyscrapers in Shanghai's Lujiazui financial district may dwarf those in New York, London or Hong Kong, we should remember the reality: China is still a developing nation no matter how many tall buildings it constructs. Real estate's sole purpose should be to meet the people's basic need for living and working; there are many other, more important issues that need our attention before we can move towards a higher level of civilisation.

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Wrong channel

Robert Chua says hired consultants fail professional standards when they openly criticise their client's decision, as one did recently in TV licence row

It should come as no surprise that Jenny Ng Pui-ying, the consultant who said the government had misquoted her company's assessment of the TV market during the row over free-to-air licences last year, has finally done the honourable thing and quit her job.

Clearly, Ng, the managing partner of Value Partners, must have realised she had committed the cardinal sin of speaking out against one's client, and that this was uncalled for. I see no logical reason for politicians to demand an explanation for what seems to be common sense prevailing.

Why do some consultants expect a client to accept their findings and recommendations as the final decision? In Ng's case, the government was free to decide on its own how many TV licences were awarded. Just what role did Ng think she or the company played? Was she the ultimate decision-maker, or was it the government, which paid for the report? Is the client obliged to discuss with a consultancy firm it has hired whatever it has on its mind?

Was it right for Ng to speak out and say her company did not agree with the government's decision? If consultants who don't like their client's decisions always did that, they'd probably never be hired again. After all, Ng wasn't challenged by the government to defend her work.

Personally, as any good consultant should, I will tell it as it is when anyone asks for my advice on a project within my scope of expertise. And that includes telling them to forget it, or suggesting an alternative if I have one, if I don't believe the idea will succeed. Then, it's up to them to decide what to do; I don't necessarily expect them to follow my advice. It is their investment at stake, after all.

A consultant's role is to give recommendations to the best of their ability. That's it.

Like all businesses, consultants need to sell themselves and their services. Very often, that means many will choose not to discourage a client, even if they feel a proposed business plan is flawed from the outset and will never work. To do so might mean not getting the contract.

Of course, a good consultant would not mislead a client just to secure a contract. But it's a fact that most commissioning officers prefer to appoint a consultancy firm that is likely to agree with their project, often for self-serving purposes; it makes them look good and may even help them keep their job.

If, at the start of the bidding process, the commissioning officer is a management executive, any consultancy that speaks up against a project is more likely to be excluded. If the commissioning officer is the owner or shareholder, such a consultancy may be asked to provide a one-off report detailing why they think the project will fail, and maybe offering an alternative. The client may then use this report as a reference against other firms' recommendations.

At the end of the day, it must be remembered that the client, ultimately, makes the final decision. Consultants may not like it, but they have to be professional and live with it.

Veteran broadcaster Robert Chua was the founding production manager and creator/executive producer of *Enjoy Yourself Tonight* at TVB, Hong Kong's first terrestrial TV station, and founder of satellite TV station CETV

Talk of Li being sidelined is not backed by party's recent power shuffle

Deng Yuwen and **Jonathan Sullivan** say Xi's appointments have in fact beefed up the State Council

The appointment of Premier Li Keqiang (李克强) to the Communist Party's powerful new state security committee should serve to dampen speculation inside and outside China that President Xi Jinping (习近平) is weakening the role of his No 2 in a bid to consolidate power.

Li has been named vice-chairman of the National Security Commission following his inclusion in the Central Leading Group for Overall Reform, which is tasked with implementing a bold set of economic reforms. The twin announcement surprised those who argued that Li had been pushed to the sidelines.

There were strong reasons for thinking that Xi was attempting to establish himself as China's most dominant leader since Deng Xiaoping (邓小平). There was talk of an unsettling move towards "one party, one doctrine, one leader".

Analysts had pointed to Li's lack of involvement in drafting the party's central reform blueprint at the landmark third plenum meeting in November as evidence of his waning authority. Furthermore, since national security is usually the purview of the party's general secretary – currently Xi – some predicted Li would be the one to lose out in any restructuring of power, with the State Council, led by Li, appearing marginalised by the two new agencies.

By far the best way for the party to silence whispers of Xi's push for dominance would have been to appoint Xi as the leader

of the National Security Commission and Li the leader of the "leading small group" for reform – a leading small group is a body set up to co-ordinate the delivery of the Politburo's policy decisions.

This approach would have reaped the best rewards. First, although "comprehensive reform" is a crucial goal for the party over the next 10 years, its major focus is restructuring the economy. As leader of the small group for reform, Li would have



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had the remit to implement the planned reforms quickly and efficiently.

Second, Li is already head of the leading small group for finance, which forms the foundations of the party's economic policymaking. With Li at the helm of both small groups, the possibility of conflicts and discrepancies between the two would have diminished.

If the party believed that, in order to drive forward reforms, Xi needed to take control of the two new organs himself, then its decision to appoint Li as second in command of both is the next best option.

Li's appointment to the National Security Commission sends a particularly strong message because, since Zhou Enlai (周恩来) – premier throughout the Mao era – the main responsibility of the State Council has been China's economic and social development. The premier has seldom had much to do with national security.

Li has not been marginalised in the recent power shuffle for two key reasons. Since he assumed power, Xi has consistently affirmed the importance of the rule of law. By edging out Li, Xi would have undermined his own rhetoric. While he can look to chip away at Li's own personal authority, Xi cannot diminish the decision-making powers of the State Council by excluding Li from the two new organs, which would have effectively rendered it a shell institution.

Secondly, Li enjoys close ties to former president Hu Jintao (胡锦涛). Any move to sideline him so rapidly would not be in keeping with the political culture of the party. Appointing Li to both agencies marks a nod of respect to Hu.

Apart from dispelling the rumours about Li's uncertain position, his membership of these two important state bodies in fact signals a strengthening of the State Council. In addition to Li, the reform small group includes all four vice-premiers.

This proves Xi's reforms will not start from scratch, but will proceed within existing structures and personnel. Setting up another set of

administrative organs and abolishing the State Council would have been impractical.

It also demonstrates that the extent of Xi's power is probably not as far reaching as many believe, with some commentators speculating that China was returning to the days of a Mao-type strongman.

Xi has certainly demonstrated his strength as a politician, but to deliver concrete reforms he cannot rely on raw power alone.

Within a year of becoming general secretary, Xi has set the party on a clear course towards reform and earned the respect of the Chinese people. But it will take longer for him to establish his authority among bureaucrats and officials; this can only be achieved through tangible results.

The composition of both new agencies portrays a good balance between party and government. Although Xi appears to have a more powerful institutional base than his predecessor, whether this amounts to a "strongman" position is too early to say.

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Screening process for asylum seekers must be fair and open

Aleta Miller says many issues still unresolved ahead of new system launch

It has long been Hong Kong's shame that it is one of the only wealthy, developed jurisdictions in the world that does not offer long-term protection to people fleeing from human rights abuses.

With the introduction of the Unified Screening Mechanism, the government's new system for dealing with protection claims, announced last Friday and due to be rolled out next month, it so far appears to be business as usual.

The mechanism brings under one process refugee claims together with claims against torture and cruel, inhuman or degrading treatment or punishment. These are now collectively known as "non-refoulement" claims. The government did not choose to implement this system; it was forced to do so by a Court of Final Appeal ruling last March.

Late as it is, it is positive that the mechanism will soon be operational. But we, other non-governmental organisations and the protection claimants themselves are sorely disappointed that there has been no consultation with civil society about the establishment of the new system, especially in its consideration of the most vulnerable people, like the 2,000 refugees we have assisted at our centre over the past six years.

These are men, women and children who have experienced unspeakable traumas like rape, torture and war. The people we support are the survivors, those who have managed to escape to Hong Kong looking for protection, often to be doubted

because what they have suffered is so unbelievable in the context of our own sheltered lives.

We have spent years working intensively with these survivors to enable them to give voice to the most traumatic events upon which the determination of their case may hang, and to ensure they have a fair hearing and are not mistakenly rejected and returned to face potential torture, persecution or even death. There must be better provisions built into the



Civil society will again be filling the holes left by a government lacking political will

mechanism to meet their needs. Many questions remain unanswered about what happens to claimants at the end of the process. If someone has a successful claim with the government, they will then be sent to the UN refugee agency to see if they meet the definition of a refugee, as defined by the Refugee Convention. If they do, the UNHCR will assist them with potential resettlement to a third country.

But this can take years. What do they do in the meantime? Will they languish in limbo in Hong Kong, as current refugees do? Hong Kong continues to

refuse to see local integration as a long-term option, and declines to grant the right to work or simply to volunteer even to recognised refugees and protection claimants. With the government now assuming responsibility for making decisions, officials need to get real about the durable outcomes for those people.

To try to fill some of these gaps, we are using our experience to launch new, tailored, independent information sessions for claimants. We believe access to high-quality information is a right and we will continue to support these vulnerable people to ensure their needs are met.

Yet again, civil society will be filling the holes left by a government lacking the political will to care for some of our city's most vulnerable people.

The decisions the government will make under the mechanism could mean the difference between life and death for the people we work with. As the primary duty-bearer for human rights, the government has a critical window of opportunity to consult and co-ordinate with NGOs, to improve its decision-making and to create a fair, transparent and efficient process to ensure people seeking protection are not returned to places where they may face harm.

The pressure is on for the government to finally get it right.

Aleta Miller is executive director of Hong Kong Refugee Advice Centre. www.hkrac.org