

# Beyond the gloom

**G. Bin Zhao** says sustained, healthy growth will be the new normal for China's economy in the longer term

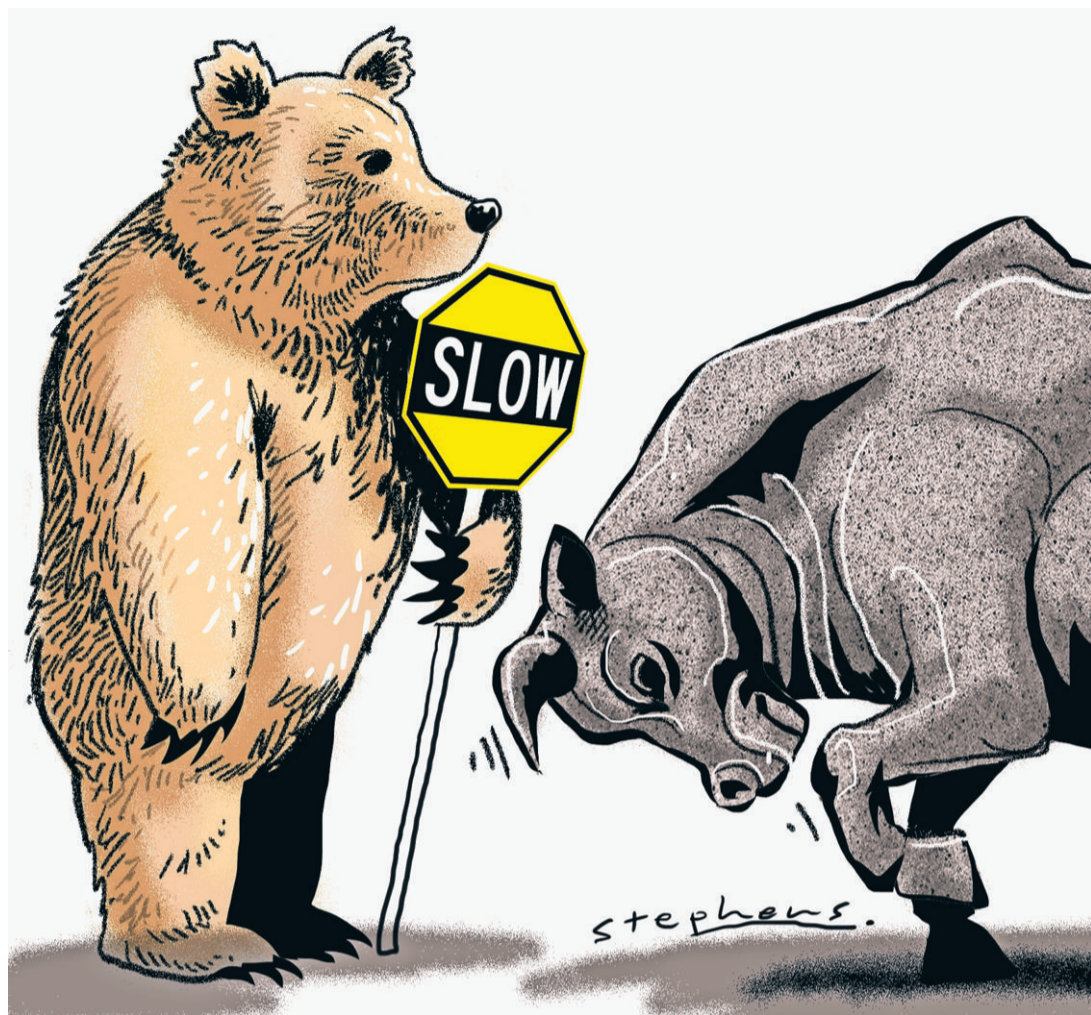
In the first week of 2016, the Shanghai stock market welcomed in the new year by twice triggering the recently implemented circuit breaker mechanism, a regulatory tool designed to calm tumbling markets. On the first trading day of the second week, the market continued to plunge, this time by more than 5 per cent. The bad news from China's stock market not only made headlines in the world's major financial media, it also led to declines in almost all the major markets around the world. The panic among global investors is even more serious.

So, how should we react to such a critical situation? How will the Chinese economy develop?

First, although the economy will continue to face downward pressure in 2016, it is important to understand that it is at a historical developmental stage of transition, shifting from rapid to moderate growth. During this transition, unusual events will inevitably occur. Many who are pessimistic about the future of the Chinese economy do not fully understand the laws of economic growth during periods of adjustment, nor are they aware of the bigger trends.

It should be expected that double-digit growth will become a thing of the past, given that, for instance, large-scale infrastructure construction has matured, the real estate market is saturated and even over-supplied, and the economy has entered an era of post-industrialisation. A slowdown in growth rates is an inevitable part of the development process.

Second, the economy is no longer in need of double-digit growth; the almost 40 years of sustained high-speed economic development since the reform and opening up period has led it to a stage where it is due for a transformation. In the past few years, economic development has been too fast, overheating the general economy and bringing about great challenges such as serious environmental degradation, in-



creasing social conflict, international pressure, and so on.

At the same time, the country's environment, resources, labour and land cannot continue to bear the weight of such a massive and crude expansion. Thus, an economic transformation and upgrade is unavoidable.

Third, historical experience and the laws of development have determined that the Chinese economy must slow down; more importantly, the central government clearly understands these laws and uses them to its advantage when outlining relevant policies and regulations, so it is almost certain that the economy will enter a "new normal" situation.

In a policy-oriented economy, government actions are powerful forces for growth. The official growth target was set at no lower than 6.5 per cent, which not only has symbolic meaning but is a scale which measures the development level across all industries.

The Chinese economy as a whole is likely to continue last year's trend during 2016, although a pessimistic forecast estimated that the

GDP growth rate would more likely be lower than that of 2015. In fact, Beijing recently announced that the next five-year growth target would be no lower than 6.5 per cent; in 2015, the lowest growth rate was 6.9 per cent, in the third quarter, so there is still a certain amount of room to manoeuvre.

The world economic recovery is weak. China's real estate industry is in the doldrums. Many industries still face overcapacity and pressure to reduce inventories; total profits for industrial enterprises have decreased and the number of enterprises suffering losses has increased; and, local government debt continues to go up. Clearly, a number of these adverse factors make for a pessimistic overall economic situation in 2016.

Although the economy is slowing, I firmly believe it will transform to a situation in which the overall trend of sustained, stable and healthy development over the next few years will be the new normal. The current adjustments will lay a solid foundation for future long-

term sustainable development. For example, a number of reforms have been initiated to promote a more market-oriented economy, more transparent governance, fairer law enforcement and a more equitable society.



## Those who are pessimistic do not understand the laws of economic growth during adjustment

These measures will correct the bold and sometimes even barbaric style of economic and social expansion that took place in the past few decades.

Back to the Chinese stock market; several months after experiencing a roller-coaster-style slump last summer, the Shanghai Composite

Index rebounded by about 20 per cent, but only one week after entering 2016, it fell back to around the 3,000 mark again. There are multiple reasons for the ongoing crashes, but the core problem may be that investors are pessimistic about growth in 2016, and in terms of the timing, the approach of the Lunar New Year means many are eager to cash in.

Based on reports from the Central Economic Work Conference last month, growth in 2016 will probably be higher than many data-based predictions, given the big policy changes that may well be on the way. The conference identified five major policy goals – cutting industrial capacity, lowering corporate costs, reducing property inventories, deleveraging, and improving weak links. Among these, lowering corporate costs should see more proactive fiscal policies taking effect, and the government will incur some deficits to cut taxes for businesses. The goal of reducing property inventories may see a relaxation of the real estate regulations which have lasted for several years, to help reduce the glut.

In addition, monetary policy may also be more lenient. There is still room for downward adjustments in the deposit reserve ratio, and the central bank may continue to cut interest rates. Some people worry that a cut in interest rates may trigger a large-scale outflow of hot money, leading to instability in the exchange rate.

I believe that since the majority of market participants think China's economic slowdown and the continued depreciation of the renminbi are now the trend, the central bank will only need to guard against financial risks that will cause exchange rate fluctuations, and it will gradually or very soon allow the market to decide the actual exchange rate; in this way, it can also promote the renminbi market-oriented exchange rate formation mechanism.

Undoubtedly, many people, including investors, continue to dwell on the past of double-digit growth, a mental state that causes them to mistakenly think that 6.5 per cent represents an era of economic depression. At 3,000 points, the Shanghai Composite Index has distorted the value of many companies, and far-sighted investors should chuckle, since the beginning of 2016 has seen opportunities unfold everywhere.

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## Have education officials lost their minds?

**Mike Rowse** says with the Education Bureau's petty biases against the ESF and international schools, and flip-flopping over the importance of TSA, the education sector is in a sad state

Sooner or later, preferably the former, someone needs to undertake the bureaucratic equivalent of a psychoanalysis of the Education Bureau. We can leave aside the recent bizarre behaviour of the minister, Eddie Ng Hak-kim, in reporting to the Security Bureau that he was being followed. There is a deeper problem, as illustrated by the saga of the Territory-wide System Assessment (TSA), and this is only the latest example.

For as long as I have been in Hong Kong, most of those in government dealing with education have had an intense dislike of international schools. This animosity reached a crescendo when mention was made of the English Schools Foundation (ESF), which the old education department (now absorbed into the bureau) loathed with a passion.

There was some justification for holding a grudge when the ESF was first established. The classes were smaller, there were more and better facilities than in local schools, and the full cost was covered by the government which meant that the subsidy per pupil was very much higher. This anomaly was later corrected and the system changed to parity of subsidy per child, with the higher costs covered by fees.

Despite the introduction of ESF fees, many local parents – including civil servants, some of whom were working in the education sector – opted to send their children to schools in the ESF/international stream rather than make them endure the rigours of local ones. As a former chief secretary told a lunch of International Business Committee members, "The education department sees the popularity of international schools as an indictment of their own work with local schools", going on to add, sotto voce, "which of course it is". I was sitting next to him and silently applauded his candour.



## Most in government dealing with education have an intense dislike of international schools

The education officials kept up their assault on the ESF subvention, arguing that it was unfair to international schools because they received no subsidy. The obvious remedy to that would, of course, have been to introduce a similar subsidy to the international schools, which could have been justified on the grounds that the majority of children attending were from local families. But that might have wiped out the local school sector altogether and no one was ready to go that far.

The anti-subvention campaign was maintained even after all three candidates in the 2012 chief executive election pledged in writing to maintain it. Finally, agreement was reached to scrap the subsidy and it is in the process of being phased out.

Now to the TSA. The idea behind it is a commendable one: test children anonymously on how well they are doing in certain key subjects periodically to measure how well the schools are doing their job so that improvements can be made to systems and curriculums. But then it dawned on the education bureau personnel that, indirectly, the tests were also measuring their performance in steering the local schools to teach effectively. As we know from press reports, some officials began to whisper to headmasters that it might be nice if the TSA results for their schools were better so that they could maintain their tier 1 rating. The headmasters had, by now, worked this out for themselves and so the regime of incredible amounts of homework for eight- and nine-year-olds came to be introduced.

Then came the outcry from parents: their children were being drilled all day in school to do well in exams that meant nothing to them personally and were not learning very much in the process.

Then came the message from education bureau officials that this excessive drilling was wrong, that children were not being assessed individually, etc. In a good many cases, this latest message was coming from the same individuals who had earlier whispered the opposite. I am not a doctor, but that looks as clear a case of schizophrenia as I have ever seen.

Presiding over this shambles is our hapless minister. I have only one thing to advise him, though I am not sure how much comfort he will derive from it: it's not paranoia if they really are out to get you.

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Lawmakers protest against the Territory-wide System Assessment outside Legco. Photo: Jonathan Wong

## Leung presents his own, very pedestrian, vision for Hong Kong

**Alice Wu** says the chief executive's focus on the trivial, from toilets and traffic lights to bus stop seats, seemingly to avoid controversy, is a worrying indication of the city's political dysfunction

We have to brace for bad times ahead. RBS sounded a warning to investors last week – that 2016 is going to be a "cataclysmic year", telling investors to "sell everything". That's a strong message.

Things aren't just depressing on the stock market front, either. A day ahead of the policy address, the University of Hong Kong Public Opinion Programme released Leung Chun-ying's latest popularity score, which was a new low since he took office in 2012. And, in a snap poll by the programme, the policy address scored another new low among the public.

Things seem so cataclysmic for Leung that he simply rode on the "One Belt, One Road" initiative in his address. But that obviously didn't go down well with the public. All its "grandeur" doesn't quite translate into anything tangible yet, and it's not exactly something ordinary people can have a say in. It's a national development strategy, after all. There are growth opportunities to be tapped into and Hong Kong is perfectly positioned to "complement" the national strategies. Our pillar industries will gain as they contribute. This is what

we've always been good at. So it's not that the people are against "One Belt, One Road" or the idea of Hong Kong playing a role in it. And, in a sense, Leung was right – people don't expect the Hong Kong government to just sit on its hands. It's not that Leung failed to spell out "big" ideas to take Hong Kong forward. "One Belt, One Road" is huge, but the vision isn't Leung's. Where he fell short is in offering ideas and a vision of his own.

Governments the world over invest in innovation and technology. The question has never been whether we should, but how we should do it. Setting up a government matching fund to encourage investment in IT, supporting universities and science institutions, and investing in technology start-ups via the Cyberport macro fund are measures that should be welcomed. They're also, arguably, the least our government can do.

While expectations weren't exactly high for the policy address (almost half the people surveyed by the Chinese University Institute of Asia-Pacific Studies last month said they didn't have any expectations), the biggest shocker had to be hearing Leung talk about bus stop seats, better public toilet facilities,

and longer times for green lights at pedestrian crossings. Many were angered by the, well, pedestrian nature of those issues.

Leung's vision of Hong Kong's future is perhaps very much of this time and place. Perhaps this city is so stuck, politically, that very little can be done except for giving our public toilets non-slip floors, handles and larger stalls.

While there is little political mileage to be found in them for Leung, the same applies to his staunch opponents, too. There is no political mileage in opposing non-slip floors. It seems Leung is just picking his battles. Fighting over toilets would be far less damaging than, say, fighting over whether university publications were instigating self-reliance and self-determination for Hong Kong.

In our current political environment, perhaps Leung was trying to do the "right" thing with this policy address. With so much rancour, he may be doing us a favour by steering clear of politically sensitive and controversial issues.

Beijing must take note not of the 48 mentions of "One Belt, One Road", but of the new low Hong Kong's political system has hit. We have arrived at an almost complete state of dysfunction where only the most trivial things – traffic lights, toilets and bus stop seats – can be executive-led.

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## A new era for climate action

**Vincent Piket** says the multilateral approach that helped make Paris a success is the way to keep the momentum going as nations begin to act on pledges

The climate change agreement reached in Paris last month was nothing short of historic. The deal is a much-needed bridge towards decarbonising the global economy and achieving climate resilience in the 21st century. It sets out the objective to keep global temperature increases "well below 2 degrees Celsius". What made the deal possible? The agreement is, first and foremost, a great success for the UN. The multilateral approach and principles have been vindicated after years of increasing doubts over its effectiveness.

But it is also a success story for Europe. The EU played an indisputable role as dealmaker by listening to partners and offering bridging proposals at crucial moments. The EU leveraged its track record on climate action and international support to build a multilateral consensus. Positioned in the middle ground between a loose coalition of "like-minded developing countries" led by China, India, Malaysia, Venezuela and Saudi Arabia, eager to let the burden rest on developed countries, and the US administration, wary that legally binding commitments would hold up ratification, the EU brought concrete solutions and rallied support for ambitious outcomes.

A "High Ambition Coalition" announced by the EU and the Group of African, Caribbean and Pacific countries generated an increasing push on the other major

players. It was then joined by the US, Canada, Japan, Mexico, Brazil and others.

The accommodation by the G77 plus China (134 developing countries in total) in the last days of the conference finally allowed the deal to come alive. Most notably, China was eager to find a compromise and agreed on the main terms before the conference.

Finally, the decisive role of the French presidency is hard to overstate. The level of ambition of the Paris agreement owes a lot to the French team.

The hosts succeeded in generating a sense of inevitability that proved crucial. It made Paris, which recently witnessed gruesome acts of terror, the city where humankind proved it can bridge differences for the sake of the common good.

Does this mean our planet's climate is safe? Not yet. The agreement remains a historic achievement, but as the start of a new era for climate action, not as the end result. The deal now needs to be implemented. The international community has its work cut out for decades. The measures announced by Hong Kong's chief executive in his policy address point in the right direction.

Climate change remains the biggest challenge of our time. Hong Kong and the EU both have to live up to it.

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