INSIGHT

Hands off

Koichi Hamada says Beijing must rethink its ineffectual meddling in the stock and currency markets

In the past week or so, stock markets around the world have been hit by an upsurge in volatility, with large price swings confronting traders in New York, Tokyo, London and beyond.

And the entire global financial spasm has been largely blamed on a single culprit: China.

In a free economy, market mechanisms can produce stability or instability. An increase in the price of a tangible good would typically cause demand to fall, leading the market towards a new equilibrium.

By contrast, an increase in the price of an asset like a stock raises expectations of a further increase, causing demand to rise, potentially to excessively high levels.

In a planned economy like China's, where policymakers use various tools to influence asset prices, such instability could, in theory, be avoided; indeed, the Marxist view is that government intervention to stop crises is precisely why controlled economies are superior to their free-market counterparts. But, in practice, that does not seem to be the case.

So-called price-keeping operations by China's monetary authorities (an approach tried in Japan in the early 1990s) are presumably the reason why the domestic stock market rose sharply over the past year, far beyond the levels warranted by the country's economic fundamentals.

The recent stock market plunge suggests investors have concluded that equity prices have become unsustainable.

Yet the Chinese government has remained committed to intervention, responding to the correction with heavy-handed, politically motivated measures, including the complete suspension of trade of many companies' stocks.

The move seemed to have halted the further deterioration of the Shanghai stock market. But the effect was only temporary; on August 24, the market fell by 8.5 per cent, the largest drop since 2007.

The long-term systemic impact of China's interventionist approach may be even more serious than the stock market's current decline.

Few want to invest in a market where the government can change the rules of the game at any time, especially if they have had first-hand experience of being blocked from trading at a crucial moment. To make matters worse, Chinese investors do not have the same access to information that investors in other markets do.

Can a highly organised financial market like the one that is emerging in Shanghai ever be compatible with an authoritarian regime?

Another recent intervention by the Chinese authorities – gradual appreciation, followed by the unexpected devaluation of the renminbi – raises similar questions.

To be sure, the first part of the move was probably motivated largely by the desire to strengthen markets' role in setting the exchange rate, which promises to boost long-term stability and improve the renminbi's chances of becoming a global reserve currency.

But, as the recent devaluation showed, the shift, coming after years of efforts to strengthen the renminbi, could fuel a sharp increase in volatility in world currency markets.

Of course, the renminbi's recent depreciation was much smaller than the de facto currency devaluations engineered by the United States and Britain after the financial crisis of 2008.

It was also nowhere near as significant as the devaluation that the Bank of Japan has pursued since 2012. But the fact that the renminbi has been so highly managed, together with its history of steady appreciation, meant that the sudden devaluation had a more significant effect on the market than the US, British and Japanese moves, all of which were communicated better in advance.

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Still, warnings that renminbi devaluation will spark a "currency war" are unwarranted. Under the flexible exchange-rate system that now prevails around the world, if each country focuses its monetary policy on achieving ideal inflation and employment conditions at home, the result will be reasonably stable – or even so-called Pareto-optimal – macroeconomic conditions.

To be sure, the US may respond to China's devaluation by postponing any interest-rate hikes or moderating the pace of its withdrawal from quantitative easing, and Japan may intensify its own quantitative easing to cope with negative spillovers. But competitive cumulative devaluations will not arise.

Nonetheless, recent events should compel China's leaders to reconsider the extent to which they control the country's economy.

If they maintain their secretive decision-making and continue to manipulate the price system for political ends, their chances of building a stable, resilient and market-oriented economy, underpinned by a major international reserve currency, will be seriously compromised.

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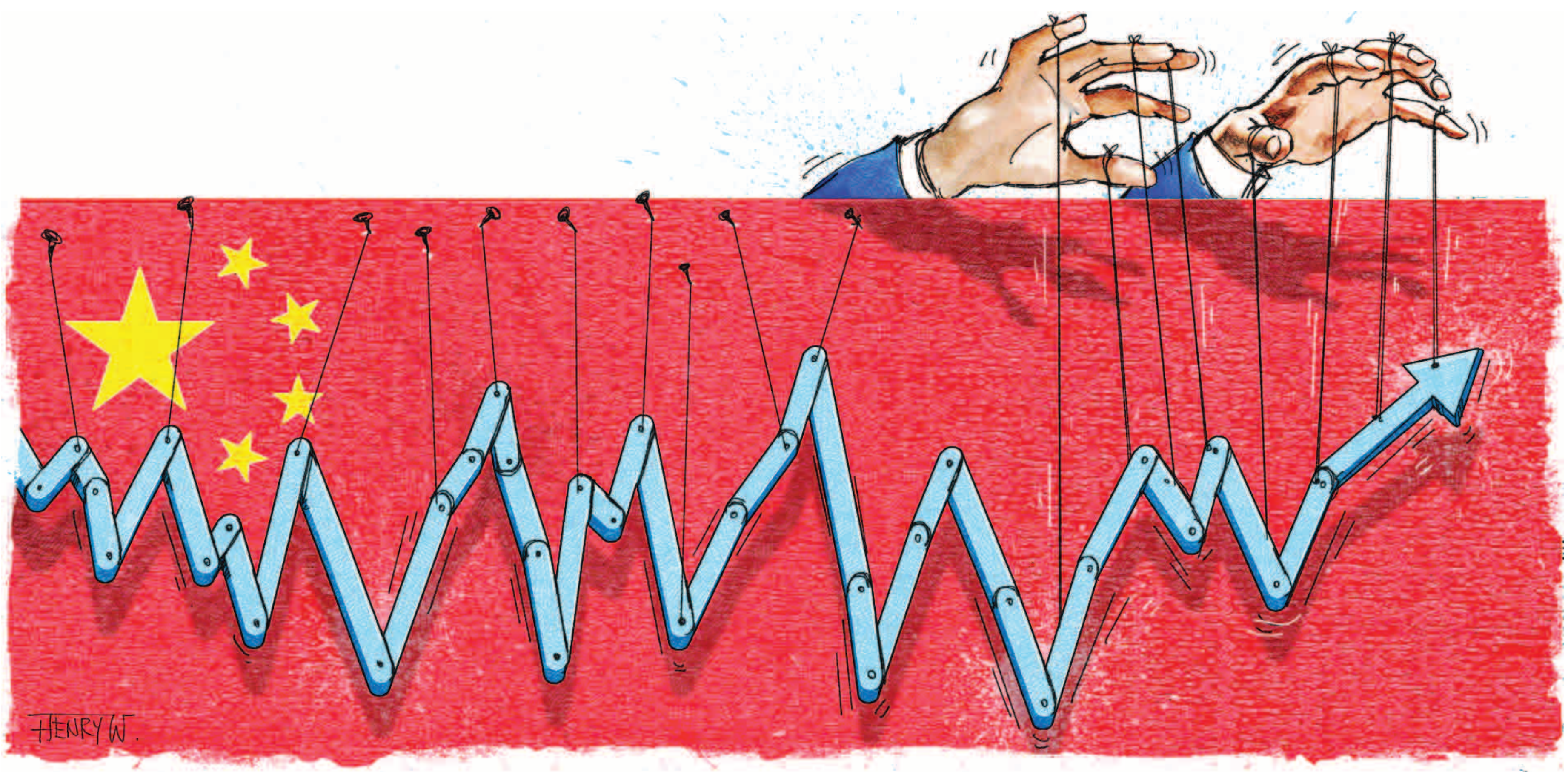

Government can't just bend the rules when it feels like it

Peter Kammerer says Hongkongers expect accountability in all public decisions, as outrage over the Avenue of Stars redevelopment plan shows

Hong Kong makes a big deal of rules and laws. They are what makes our city so different from the mainland, we are told. As long as we have, cherish and uphold them, we can feel secure and companies can confidently do business. Why, then, does the government on occasion act as if this pillar of society does not exist?

Any number of instances can be cited, but the one of late that rankles most is the decision to renew and enlarge New World Development's control of the eastern half of the Tsim Sha Tsui waterfront to Hung Hom.

There is no better place to take in the view of Hong Kong Island's stunning skyline or enjoy the majesty of our city's most valuable natural asset, Victoria Harbour. It is a place for locals and tourists alike – passing it to a company to develop and manage violates a promise to give the harbour back to the people.

But that's just part of it: this was done without consultation or an open bidding process and at the cost of the area being closed for public use for an anticipated three years.

During that time, New World, under a new 20-year deal, will revitalise the Avenue of Stars tourist attraction and add on a 500-metre extension to the 440-metre section it has managed since 2004 in front of its New World Centre, build a food plaza, film gallery and performance venue. Restaurants will also be put at nearby Salisbury Garden.

The Leisure and Cultural Services Department has promised that there will not be any high-end restaurants and shops, but we only have to look at the travesty of Cheung Kong's 1881 Heritage project on the site of the former Marine Police Headquarters to be sceptical.

There was no public concern when New World built the Tsim Sha Tsui promenade in 1982 and the Avenue of Stars 22 years later. But times have changed: there have been court rulings over harbour reclamation and protests over the demolition of the Star Ferry pier in Central. Understandably, then, despite the Avenue of Stars being in need of a spruce-up, there is a public outcry.

There's also the matter of the Harbourfront Commission and what it's supposed to do. I can't think of a better role for it than to be intimately involved in so important a part of our harbour. You have to wonder why it isn't. Among the commission's terms of reference is to "play an advocacy, oversight and advisory role in the envisioning, planning, urban design, marketing and branding, development, management and operation of the harbourfront areas and facilities on a continuous and ongoing basis". Minutes of its meetings certainly show it has been well aware of New World's plans. It has made its views known – but there is no certainty that what it advises will be listened to.

The government is supposed to lead by example. It sets the rules and expects us to follow them – which gives it no excuse to do otherwise.

If it promises public access to the harbourfront, it has to do that. The manner in which New World has been chosen and put in charge breaks that pledge.

The popular theme song to the 1980s TVB drama *You Only Live Twice* neatly sums up the sentiment. In the song, *It's Hard to Draw a Line Between Good and Evil*, an ordinary man and the devil have a conversation; they agree that the world is full of corruption and the streets are full of robbers, so there is no need to apply for a licence to break the law. That was three decades ago, in different times, but there's increasingly a sense that not much has changed.

Hong Kong has laws, the authorities are not shy about holding public consultations and have made many pledges to uphold the highest standards. Despite that, they, on occasion, still feel the need to bend the rules and do as they please.

No wonder some citizens no longer trust what the government says and feel that they, too, can ignore the rules.

Peter Kammerer is a senior writer at the Post

Stop the agricultural rot

Mark Godfrey says Beijing should direct its subsidies away from wasteful grain production, towards sharpening its edge in agriculture

Much has been made in recent months of China's mountains of moulding grain. This is down to an outmoded state system of prioritising continuous increases in grain yields – a system which has done much to increase the quantity of Chinese grain output at the expense of quality.

A consecutive annual increase in yields has become a mantra and a raison d'être of Beijing's agricultural policy, but it belongs more to a Soviet-style planned production than to the modern, efficient agricultural system which China says it wants. To increase volumes, China has handed out huge subsidies to grain and oil seed producers while guaranteeing minimum prices to farmers. Subsidies have helped pay for the massive input of fertilisers which have gone some way to making China a leading producer of grain in global league tables. But China has maxed out many of the productivity gains, with much of the nation's soil damaged by chemicals.

China now needs to reduce subsidies and focus instead on its natural competitiveness. A leading exporter of many fruit and vegetables, it's also the world's biggest exporter of farmed seafood. It got to a position of dominance because growing garlic and apples, and farming tilapia or shrimp, require a great deal of manpower.

Yet, rather than funding training and productivity of profitable commodities like fruit, vegetables and seafood – where it can maintain a leading global market share – China continues to pour funds into maintaining artificially high grain yields.

China would be better placed to invest in increasing grain yields in friendly developing countries where land is cheaper. Attempts to acquire or rent vast swathes of Kazakhstan steppe for grain production met with local opposition because it wasn't presented as an effort to help local authorities improve productivity of the local agricultural sector. Vast potential remains in numerous developing countries in Africa and Latin America.

At present, China risks repeating the mistakes of the European Union, which had subsidised its farmers to produce vast quantities of beef and butter, which had to be sold off cheaply – indeed, some of it was dumped on developing countries. China is unlikely to be shipping its stocks overseas, but there is nonetheless a lesson to be learnt. Today, EU farm subsidies are less linked to volume and more to sustainability and farmers' stewardship of the environment.

However well intended they were, Chinese grain quotas, goals and subsidies belong to another era. As a global producer and consumer of grains and other agricultural commodities, China need not be afraid of relying on the market and seeking supply in countries where it can share its considerable agricultural expertise.

Mark Godfrey writes mainly about the seafood trade in China for US-based Seafoodsource.com

No denying our shared destiny with mainland

Tik Chi Yuen says as a rightful part of China, Hong Kong should strive to develop a cross-border relationship based on trust and mutual benefit, while avoiding extremist views

To be pragmatic, we have to accept the fact that Hong Kong and mainland China are knitted together. "One country, two systems" is a prerequisite for Hong Kong to keep lives and values unchanged. It is a constitutional concept, a result of the Sino-British Joint Declaration and the Basic Law.

Given the acceptance of the Basic Law after the change of sovereignty, we must also accept that mainland China plays a part in Hong Kong. As the sovereign state, China has repeatedly issued orders, not merely to Hong Kong citizens but also to the government of each province and city, to abide by the Basic Law.

As time goes by, the relationship between Hong Kong and the mainland has become more complex and complicated. Each party views "one country, two systems" in different ways. To the mainland, the concept is needed to preserve Hong Kong's capitalism, and can benefit Hong Kong as well as the rest of China. For their part, Hong Kong people treat the Basic Law as a shield to safeguard their way of life and values for 50 years.

These two interpretations have created confrontations over the past 18 years. Take the Individual Visit Scheme for instance. The influx of mainlanders with two-way permits has contributed significant revenue to the city. However, social, cultural and economic issues have arisen. One could criticise the policy for causing unnecessary stress in this crowded cosmopolitan city, but it would be wrong to say it has brought nothing constructive.

In fact, the problems surrounding the scheme are not the first the city has had to deal with. For decades now, an increasing number of local workers have chosen to work on the mainland. They have ultimately lost their family bond, leading to a rise in the number of broken homes.

Also, mainlanders and Hongkongers have been involved in numerous clashes in the city, over parallel-goods trading, competition for maternity beds, degree quotas, career opportunities, baby formula and a flood of investment into the Hong Kong stock market.

We are doomed to failure if we insist on going into self-defence mode, trying to eliminate each other

Neither the Chinese government nor the local administration, or Hong Kong people, could have foreseen – at the time the Joint Declaration and Basic Law were being formulated – the great impact a relationship based on "one country, two systems" would have in the long run.

Neither one side nor the other bears sole responsibility for the problems so far. And it will take time for both sides to make progress.

Even though the mainland-Hong Kong relationship is complex, it is our shared destiny and we should face it together and embrace it with courage. Unless we want to forsake Hong Kong, we cannot reject the fact that the mainland and Hong Kong are in the same boat.

Some people may wonder how the relationship will develop, whether it will be as bright as expected. Any relationship brings risks. Yes, there are still many problems and difficulties ahead. However, it may also give birth to more opportunities. There are, after all, two sides to a coin. We should look at each situation from different angles; each policy has positive aspects and defects, which deserve our fair attention. One-sided comments are narrow-minded and should be discarded immediately.

Likewise, anyone who singles out mainland China or Hong Kong, and either blindly supports or rejects one or the other, is avoiding reality. There is no way to strengthen the relationship between the two sides other than to respect their mutual existence and status, and the role each has to play.

Cultural, educational and business cooperation and exchanges between the two sides are becoming more intimate, whether one likes it or not. When dealing with issues linked to both sides, we are doomed to failure if we insist on going into self-defence mode, trying to eliminate each other.

Realistically, we could not imagine anything good for Hong Kong without mainland China – for the mainland, the same would apply if it were to lose Hong Kong, a precious treasure.

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People in Shenzhen use the Lo Wu station connecting Hong Kong. Photo: AFP

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