

INSIGHT

No clearer sign

Matthew Garland says the dead pigs found floating in a Shanghai river are only the tip of China's massive water problem, which the government is already desperate to tackle

There is an old saying in Chinese culture that the appearance of a fat pig at the front door augurs abundance and good fortune.

The sight of a bloated one floating dead down the nearest river portends something else entirely. In the past two weeks, more than 16,000 dead pigs have been fished out of the Huangpu River, near Shanghai, and its tributaries. Outraged Chinese citizens have decried government negligence of the environment, flooding online forums with photos of riverbanks dotted with puce-coloured carcasses.

The Huangpu's cavalcade of swine follows on the heels of a recent factory spill in Shanxi (山西) province that resulted in nine tonnes of the potential carcinogen aniline being dispersed in the Zhuozhang River. Factory officials waited five days to report the spill, forcing neighbouring Handan city to temporarily cut off drinking water to a million people.

These recent episodes are but the latest in a long list of incidents that testify to China's growing water problem. As much as 70 per cent of Chinese rivers and lakes are polluted from industrial facilities like chemical and textile plants. "Cancer villages" have sprouted along waterways across the country, by-products of the ugly reality that 300 million Chinese in rural areas lack access to safe drinking water. Perhaps even more unnerving are the findings of a recent report by the China Geological Survey estimating that 90 per cent of Chinese cities are tapped into polluted groundwater supplies; groundwater in two-thirds of those cities is considered "severely polluted".

This discontent has not been lost on China's new generation of top leadership, which has pledged to more aggressively tackle China's pollution challenges in coming years. Recalling a recent visit to the heavily polluted Lake Tai, newly installed president Xi Jinping (习近平) quipped this month that "the standard that internet users apply for lake water quality is whether the mayor dares to jump in and swim". Xi was referring to recent news that residents in Zhejiang (浙江) province had challenged local government officials to swim in polluted waterways for up to 300,000 yuan (HK\$370,000).

Pollution, however, is only half of the country's water problem. Not only is China's water toxic, it is also comparatively scarce. China supports 20 per cent of the world's population on only 6 per cent of the world's water; freshwater reserves declined by 13 per cent between 2000 and 2009 alone.

The country's most industrial regions



are some of the driest, with 45 per cent of the country's gross domestic product produced in water-scarce provinces such as Hebei (河北), Shandong (山东) and Shanxi. Some 24,000 villages have been abandoned because of the desertification effects of the Gobi desert advancing eastwards. Moreover, water scarcity is not unique to China's arid western provinces. In Beijing, the amount of water available per person is just one-tenth of the UN standard of 1,000 cubic metres; across the country more than two-thirds of cities have water shortages.

Furthermore, chronic droughts in important agricultural regions are complicating the government's focus on assuring food security. Beijing has long tried to maintain a balancing act between the spread of industry, continued support for agriculture and ensuring a clean supply for



Sadly, there is little such abundance in terms of water, and much of the little that exists is toxic

consumption by 1.3 billion people. As water supplies dwindle, competition may arise over which is given priority. All three are needed to ensure stability.

Beijing is not short of bold strategies to try to tackle the problem. Over the next decade, China plans to quadruple its desalination capacity. Even more ambitious, and controversial, is the government's south-to-north water diversion project which aims to channel 44.8 billion cubic metres of water a year from southern rivers to drier northern provinces.

Beyond increasing supply, Beijing has also committed billions to promoting water conservation in agriculture through sustainable irrigation practices. Industry is also pulling its weight by fitting new factories with mandatory water recycling systems and by participating in water rights transfers with farmers. China is also investing heavily in renewable energy sources such as wind and solar power, and seawater-cooled nuclear plants, which are less water-intensive than traditional coal plants. Moreover, China already has many of the regulations needed to stop the adulteration of its rivers and lakes. Unfortunately, most have been rendered toothless by a bureaucratic culture riven with corruption.

China's new prime minister, Li Keqiang (李克强), appeared to acknowl-

edge as much in his first press conference since his appointment this month. "Corruption and the reputation of our government are as incompatible as fire and water," he said. "Poverty and backwardness in the midst of clear waters and verdant mountains is no good, nor is it to have prosperity and wealth while the environment deteriorates."

Li's candour certainly comes across as a breath of fresh air in a political environment that often discourages public discussion of China's problems. Still, it remains unclear how the state will go about curbing rampant corruption, especially without engaging in potentially destabilising political reform.

What is clear, at least in the short term, is that China's economy is likely to continue growing at impressive rates. The country's economic transformation has ushered in an era of unprecedented prosperity for hundreds of millions of Chinese. Sadly, there is little such abundance in terms of water, and much of the little that exists is dangerously toxic.

As events move increasingly towards environmental reckoning, many Chinese might prefer a less ironical portent than a river flowing with swine.

Matthew Garland is a Princeton-in-Asia Fellow at the Hong Kong-based Asia Business Council

Worse to come

Greg Torode warns that the incendiary religious and ethnic violence in Myanmar could get bloodier before stability takes hold



As the smoke clears above the rubble and bodies of Meiktila after Myanmar's latest outbreak of Buddhist-Muslim violence, a nervous region is watching.

Myanmar is an ethnic and religious powder keg as its people emerge from under the jackboot of military rule. Any number of simmering internal conflicts have the potential to involve the wider region, risking further tensions within a troubled Association of Southeast Asian Nations or raising alarm in Beijing.

Last year, the long-neglected plight of stateless Rohingya Muslims in Rakhine state drew regional and international attention after deadly clashes with mobs of majority Buddhists left 180 people dead and 110,000 homeless, further crowding the grim camps across in Bangladesh. Not only did the violence raise the spectre of future tensions with Muslim-majority neighbours Indonesia and Malaysia, but it also drew the involvement of the Organisation of Islamic Co-operation.

In a little-noticed move at the weekend, the Islamic body launched a global centre to advocate Rohingya rights. With UN refugee officials describing the Rohingya as some of the most systemically persecuted people anywhere, the organisation's push looks set to be a long-term effort.

The violence at Meiktila involved Muslims of other ethnicities and saw mobs of local Buddhist men, reportedly including monks, fan out across the central Myanmar town armed with swords, sticks and machetes.

Ethnic Chinese also fear they could find themselves trapped in the violence, a reflection in part of long-held worries after anti-Chinese riots in the 1960s and 1970s. Anecdotal evidence in recent years has pointed to considerable friction on the streets of Mandalay, which has become a jade and property trading hub for increasing numbers of Chinese from Yunnan (云南), some on forged identity papers.

No census has been done for years, but some estimates suggest as many as two million Chinese newcomers in recent years. "We know there is anger at the brazenness of the rich 'carpetbaggers' from Yunnan," said one Yangon trader from an older Chinese family. "But we worry, in times of trouble, we will all be targets. In Yangon, we have always rubbed along together under and against the military. But new times bring new worries for us all."

A stroll through Yangon reveals one of the region's most striking melting ethnic and religious pots, with Burmese, Chinese, South Asians and even Persians living cheek by jowl – a legacy of Myanmar's geography as well as British colonial history. For years, a tiny synagogue was guarded by Sikhs.

The bloodshed in Meiktila sounded a depressingly familiar toll. Both inside and outside the country, fears are mounting that matters might yet get grimmer still before some stability is found.

There can be no greater threat to Myanmar's reforms – and no greater challenge for its fledgling political and military elites. Neither the government nor the opposition can be immune from their responsibilities.

Greg Torode is the Post's chief Asia correspondent. greg.torode@scmp.com

China ignores at its own peril the debt danger lurking beyond its balance sheet

Zhang Monan says with up to 90 per cent of its assets illiquid, Beijing runs risk of a debt default

In the past 200 years, there have been more than 250 cases of sovereign-debt default, and 68 cases of domestic-debt default. None of these was an isolated incident. Indeed, such defaults have always triggered financial crises.

Since China's era of reform and opening up began, the country has experienced three instances of large-scale public-finance problems. In the late 1970s, it faced a debilitating fiscal deficit. In the 1990s, its corporate sector was plagued by "triangular debts" (when a manufacturer that has not been paid for its product is unable to pay its suppliers, which in turn struggle to pay their suppliers). Later that decade, financial institutions were burdened by bad debts generated by state-owned enterprises.

Now China is experiencing a fourth instance of elevated debt risk, this time characterised by high levels of accumulated local-government and corporate debt. China's national balance sheet, which boasts positive net assets, has garnered significant attention in recent years. But, to assess China's financial risk accurately, policymakers and economists must consider the risks that lie in the country's asset structure – and the liabilities that are not included on its balance sheet.

The current problems are rooted in the government's response to the 2008 global financial crisis. The first round of fiscal stimulus, supported by credit easing, led local governments and the financial sector to increase their leverage

ratios. As a result, by 2010, China's overall leverage ratio had risen by 30 per cent.

By the end of 2010, local-government debt totalled 10.7 trillion yuan (HK\$13 trillion), with only 54 of more than 2,500 county governments debt-free.

China's Treasury-bond debt stood at 7.2 trillion yuan at the end of 2011, and its ratio of foreign debt to foreign-exchange reserves reached 21.8 per cent, well below the widely recognised danger threshold of 100 per cent. Likewise, while China's debt-to-



China is not too big to fail. Policymakers cannot be distracted from underlying risks

GDP ratio is rising, it remains within the "safe" boundary of 60 per cent.

Judging from its balance sheet, then, the Chinese government seems to be in a solid position to manage its liabilities. Indeed, according to the Chinese Academy of Social Sciences, China's sovereign net assets increased every year from 2000 to 2010, reaching 69.6 trillion yuan – enough to cover the government's obligations.

But positive net assets are not sufficient to eliminate financial risk, which also depends on asset structure (the liquidity of

assets and the alignment of maturities of assets and liabilities). If a large proportion of a country's assets cannot be liquidated easily, or would be greatly depreciated by a large-scale sell-off, the fact that assets exceed liabilities would not rule out a debt default.

In China, this proportion of fixed, illiquid assets exceeds 90 per cent. Resource assets account for roughly half of total government assets, with operating assets amounting to 39 per cent and administrative assets comprising 6 per cent.

The latter two are difficult to liquidate. And, the traditional practice of auctioning and leasing land to keep the fiscal deficit under control is unsustainable. While fiscal revenues are on the rise, they account for only about 6 per cent of China's total assets.

China faces additional debt risks from contingent liabilities and inter-departmental risk conversion, especially in the form of implicit guarantees on debts incurred by local governments and state-owned enterprises.

In recent months, there has been a surge in local government investment vehicle bond issuance, aimed at supporting local governments' efforts to stabilise growth through investment projects. But the implicit guarantees on these bonds – as well as on existing bank loans – amount to hidden liabilities for the central government.

Local governments have also accumulated massive amounts of non-explicit debt through

arrears, credits and guarantees. Once this debt's cumulative risk exceeds a local government's financial capacity, the central government is forced to assume responsibility for servicing it.

At the same time, China's corporate sector relies excessively on debt financing, rather than equity. China's non-financial corporate debt accounts for roughly 62 per cent of total debt – higher than in other countries. According to GK Dragonomics, its total corporate debt reached 122 per cent of gross domestic product last year.

Many of these heavily indebted enterprises are state-owned, and have borrowed from state-controlled banks. The implicit guarantees on this debt, too, suggest that the government's liabilities are much higher than its balance sheet indicates.

China is not too big to fail. In a fragile economic environment, policymakers cannot afford to allow the size of China's balance sheet to distract them from the underlying structural risks and contingent liabilities that threaten its financial stability.

Zhang Monan is a fellow of the China Information Centre, a fellow of the China Foundation for International Studies, and a researcher at the China Macroeconomic Research Platform. Copyright: Project Syndicate

> CONTACT US
Agree or disagree with the opinions on this page? Write to us at letters@scmp.com.

If you have an idea for an opinion article, email it to oped@scmp.com

Laws that oppress the weak are a poor servant of justice

Beau Lefler says the courts should uphold principle of equality before law

In Hong Kong, people enthuse over the "rule of law" and its long-standing presence here. It is the cause of our economic miracle and social stability, and is purportedly the main difference between us and the mainland.

At a minimum, the rule of law includes the idea that those with power should not use the law to oppress those without. Unfortunately, history is replete with aristocratic elites or ethnic groups that oppressed those not belonging to their clan, caste or race, by dressing otherwise shudder-inducing inhumanity in the robes of legality.

Regrettably, societies have used the law as a tool of repression. For example, until recent times, laws in the US dictated dissimilar treatment of blacks and whites. Legal institutions in Germany did not thwart Hitler's rise to power but joined in enabling it. Judges committed moral crimes by abdicating their responsibility to check power.

Here in Hong Kong, until 1930, its then British rulers passed laws that reserved the choice areas of The Peak to non-Chinese, with exceptions made only by the governor's decree.

The city also had its own system of female child slavery. Local households bought young girls from poor mainland families and, like slave owners throughout history, assuaged their conscience with self-portraits of generosity – bondage in Hong Kong was surely better than freedom in poverty.

The average Hongkonger recognises that the laws here are

in favour of the landed, moneyed elite, and people cry out that they deserve protection against the ravages of the powerful, politically connected elite.

Yet from those cries we hear the unmistakable echoes of hypocrisy. For while it is an outrage that tycoons have free rein to price-gouge and monopolise, it is apparently morally acceptable for those who suffer to inflict pain on individuals even more disadvantaged.



Visitors to Hong Kong are struck by the paradox of inhumane treatment of domestic helpers

Visitors to Hong Kong are struck by the paradox of inhumane treatment of domestic helpers in an otherwise developed and beautiful place. The incongruity of a field full of non-Chinese, huddled together on cardboard boxes on a blustery winter day in the middle of the city, is stupefying.

And so the first of many questions come, to which unsatisfactory answers are uncomfortably given:

Why do they sit out here on cardboard boxes? They have nowhere else to go.

Why don't they get together with each other in their flats? The law prohibits them from living outside their employers' homes.

You mean they can't even go home at night after a hard day's work? No. And often they sleep in a child's room or on the kitchen floor. Legal rules have been designed to thwart any complaints of abuse or nonpayment of wages.

Why would Hong Kong make such horrible laws? Well, it's part of an ongoing effort to make sure that domestic helpers never become permanent residents. If they don't rent or buy, so the logic goes, they can never truly be permanent. Also, they must sign a government-produced contract that lasts only two years, after which the helper is forced to leave Hong Kong. This again works to prove they are not permanent.

Doesn't Hong Kong have constitutional protection against such unequal treatment? Indeed it does, but Hong Kong judges have ruled that since Hong Kong people don't want helpers to be permanent, it's OK for the judges to treat them like a lesser class of people.

It is said that those who are mistreated often mistreat others. As average citizens are legally oppressed by the powerful, that same citizen now legally oppresses the domestic helper, with open and ugly approval by a judiciary sworn to uphold the "rule of law".

Beau Lefler is a lecturer in the Faculty of Business and Economics at the University of Hong Kong