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INSIGHT

In the comfort zone

Andy Xie says China needs political will and real reforms to become less dependent on exports

Beijing is advocating a "dual circulation" economic strategy, to reduce its reliance on overseas markets, in effect adding its so-called big internal circulation to the "external circulation". The new wording is a reminder of many other unusual wordplays on economic policy in the past, more thunder than rain. Could this time be different?

The odds are that China will not change until external demand collapses for good. So, coming up with phrasing for a new economic strategy is likely to be for psychological benefit.

The irony is that, despite the loud talk of economic decoupling, China's exports are booming. The Covid-19 pandemic has crippled production in most major economies. Their governments have given people "helicopter" money to spend, even as they stay at home. When they buy something online, the demand goes to Chinese factories. As Covid-19 has depressed China's domestic consumption, as it does not have "helicopter" money, its economy has become more dependent on exports.

China's worry over its exports in future is reasonable. If a coronavirus vaccine comes soon, global production will normalise and China will face more competition. Meanwhile, disappearing "helicopter" money will depress demand. Headwinds from the US-China trade war will resume. These may lead to an export decline for China.

If, due to unexpected difficulties, a vaccine were unattainable for now, the world would plunge into despair again. The global economy could shrink by another 10 per cent. Even "helicopter" money may not save China's exports. Thus, China's export-led recovery this year is fragile and a double economic dip is a significant risk.

The talk of dual circulation comes as a long-term threat arises to China's investment/export-led growth model. Because of China's size, the model's sustainability has been in doubt over the past two decades. Japan's exports were worth about US$5,600 per capita last year. At the same per capita level, China's total exports would triple, to US$7.8 trillion. The backlash against globalisation is largely against cheap Chinese exports. Imagine the world's reaction if China's exports were three times as big.

The obvious maths in China's sustainability story has not led to modifications in its development strategy. Beijing periodically talks up becoming more domestic-demand-led, but every time, it has been about more investment. The resulting capacity expansion has only made China more export-dependent.

> **Beijing's priority has always been regional balance, that is, pushing investment into poor provinces**

On growth, China did a number of things right. When investment rises from a low level, the rising capital-to-labour ratio leads to productivity growth. China's size has allowed it to reap economies of scale beyond any other country.

In investment, China has reaped the technological benefits of being a latecomer. The newer tech in its capital stock means more productivity. These factors explain China's competitiveness. However, as capital stock becomes high, these benefits diminish. The investment-led growth model is running out of steam even without the global backlash.

Both geopolitics and economics are screaming for a change in China's growth model. Is it not just talk this time? Unfortunately, Beijing's priority has always been regional balance, that is, pushing investment into poor provinces. This priority conflicts with the macro requirement to balance consumption and investment. The low efficiency of capital formation in poor provinces has contributed to China's economic slowdown in the past five years or so.

China's eastern seaboard remains its economic pillar. Despite the investment push, poor provinces remain cash negative. Fiscal circulation depends on surpluses from the eastern seaboard, to support the central government and transfers to poor provinces. The fiscal transfers are, in a way, to sustain a single currency that cannot accommodate varying degrees of competitiveness within a vast population.

The emphasis on poverty alleviation will prolong China's macro dilemma. Investing in poor provinces to make them competitive is not panning out. Instead, it has led to many government agencies and local state-owned enterprises that specialise in gobbling up cash. The need for fiscal and credit transfers keeps escalating.

Despite the dual circulation talk, China will remain dependent on exports. China's trade war with the US may force exports elsewhere, requiring more price cutting. This priced-to-go strategy will make it harder to develop a local middle class. China's disposable income last year was 30,733 yuan (HK$34,801) per capita, or 43 per cent of GDP per capita.

At this low income level, consumption is a drag on the economy, making exports more important. Hence, the government will find more ways to subsidise exports, which results in declining disposable income. This negative spiral is unlikely to change.

To find a way out of China's political economy dilemma, there needs to be a massive rise in efficiency. If China shifts from small township urbanisation to megacity development, the money can go much further. The economic necessity of creating efficient habitats is obvious. But political concerns and irrational worries have steered China towards small city urbanisation.

The political worry is that megacities are difficult to control, but recent history does not bear this out. A lack of opportunity has led to many disturbances in small cities, while Tier-1 megacities have remained calm. As for worries about pollution and crowding in big cities, the reality is that, with better efficiency, megacities have more resources to cope with urban challenges. Small cities are far more polluting on a per capita basis.

The second source of efficiency gains can come from government restructuring. Lower-tier governments are smaller copies of those higher up, like small birds but with the same organs as the big ones. The multiplication of government agencies requires massive resources and slows things down in poor areas, as they need to squeeze people for resources to survive. China needs to eliminate layers of government structure to make the economy work.

Recent trends, however, have been in the opposite direction. The failures of small cities have prompted the government to support them more, tying up more resources. The emphasis on increasing control has expanded the bloated government structure. While there is a way for China to achieve a regional and macro balance, the political will does not appear to be there.

It will take a long time for real reforms to happen. Crisis tends to force reform in China. Real structural reform may occur when economic troubles threaten social stability and the political system, as was the case four decades ago.

Andy Xie is an independent economist

Smart use of big data can help avoid costly lockdowns

Sun Sun Lim and Roland Bouffanais say a tech-based approach is a better way to contain virus

You impose a lockdown. With people confined indoors, shops close and the economy grinds to a halt. Your Covid-19 infections fall, and soon it appears safe to end the lockdown and reopen your economy. Businesses open, people come out in droves and some sense of normalcy returns.

Before you know it, new virus outbreaks emerge and clusters expand and spread, threatening to overwhelm your health care services. You impose a lockdown, rinse and repeat.

Although there is encouraging progress towards viable vaccines, lockdowns of varying extents are the main tactic to contain Covid-19 when exponential growth in community cases occurs. Yet lockdowns are blunt tools that exact heavy costs. Some experts have cautioned that this disruptive lockdown cure is worse than the disease, claiming lives through job losses, social isolation and domestic strife.

Cities in particular can attempt to break free from the lockdown trap by identifying super-spreader locales. Instead of locking down the entire city, a more sustainable approach is shutting down or reconfiguring specific locations with high potential to trigger outbreaks by tapping insights from big data.

Like people, certain places can be spatial super-spreaders, and big data is the key to identifying these weak links. Cities are constantly throbbing with human activity as people transit, converge, mingle and disperse. Currently available human mobility data must therefore be mined to zero-in on vulnerable locations.

Since such high-density places have extensive contact between people from geographically disparate locations, tracking human mobility patterns is vital for uncovering and impeding disease propagation. Urban analytics data capturing ground transport trips is a critical building block in this endeavour.

In some cities, such transport data is analysed for improved urban and mobility planning. Newer data streams from ride-sharing services such as Uber, internet-of-things-connected devices including smart lamp posts and smartphones, can also help map where human mobility patterns and epidemic spread intersect.

Such information can then be integrated with the unfolding epidemiological evidence about the factors affecting Covid-19 transmission. Currently, transient contact seems less risky than sustained interaction in enclosed spaces.

Even so, our understanding of the relationship between disease spread and social interaction in different settings is still extremely limited. This knowledge gap constrains our ability to methodically chart how differences between fleeting contact in public venues versus sustained interaction in discrete communities influence disease transmission. To better refine containment measures in cities, sharpening such insights is a priority.

More systematic data collection initiatives and protocols must be introduced to ensure big data can be marshalled, shared and fully exploited.

> **Urban analytics data capturing ground transport trips is a critical building block in this endeavour**

Greater funding is required to promote research on the nature of human movement and social interactions in a greater diversity of urban locations.

However, not all cities collect such human mobility data, and fewer still make it publicly available either because of legal and technical hurdles or the absence of regulatory frameworks that facilitate data sharing. It is imperative that such obstacles are cleared for research and analysis to be accelerated.

While we anxiously await a safe vaccine we can boost other efforts to manage this pandemic and start planning for the next one. Rather than resorting to wholesale lockdowns, governments can distil and blend insights from big data and epidemiology to anticipate super-spreading locales.

They can adopt more targeted safeguards such as social-distancing precautions for specific communities and settings, decongestion protocols in busy locations, traffic diversions during peak periods and restricted shutdowns in selected areas. Precisely because lockdowns spell the distinction between feast or famine for businesses and their employees, a robust, data-grounded approach to imposing targeted restrictions can help governments take tough decisions without seeming arbitrary, capricious or callous.

With a granular and focused containment strategy, cities need not go into a deep slumber to keep the virus at bay. They can strive to liberate themselves from the lockdown trap, the key for which lies with big data.

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City's true aim of mass testing is preparedness

Bernard Chan says Hong Kong now has experience organising large-scale community screening, which gives it a big advantage as winter nears and with it the risk of spikes in Covid-19

It took less than five minutes. True, it was not a completely comfortable five minutes. The nasal swab tickles and you feel like you need to sneeze. But, in a second, it is over. It was easy, fast and free. What is more, it helps medical professionals and the government gather invaluable information to track the spread of Covid-19 in Hong Kong.

So why has the public not been more enthusiastic about the Universal Community Testing Programme? As of Wednesday, health officials had collected specimens from more than 1.3 million people, and about 1.1 million had been tested. We have discovered 19 cases. While these numbers are good, they are still a minority of Hong Kong's 7.5 million people.

I realise many Hongkongers are reluctant to participate in the government testing. Some have political or data privacy concerns, some do not trust Beijing. Others say: "I feel fine – why should I get tested?" Motivation is another factor. Many people would grab the chance for a free Covid-19 test if they needed proof of health to travel. But without an immediate incentive, they will not bother.

A clinic recently surveyed 3,000 patients about the testing programme. Surprisingly, more than 80 per cent of respondents said they did not plan to register.

Even more surprising, politics and privacy worries did not top the list of concerns. Rather, people were fearful of being pulled from their families and put into quarantine if they or another family member tested positive. This is something the government should have considered at the planning stage.

Looking back, there are many other tweaks and improvements we probably could have made to encourage participation in the programme. But, remember, it was put together rapidly, as Hong Kong was battling an unexpected third wave spike in cases.

Governments and health officials around the world are struggling with the same issues: we have limited time, an incomplete understanding of the virus and its spread, yet we still have to move forward.

> **Medical teams from both the mainland and Hong Kong showed extraordinary professionalism**

Considering the pressure, medical teams from both the mainland and Hong Kong showed extraordinary professionalism. The mainland team had to arrange to move laboratories and technicians to Hong Kong, with enough capacity to process up to 300,000 tests a day, possibly more. (To give you a sense of scale, Hong Kong's testing capacity was only 30,000 per day).

The Hong Kong team, meanwhile, had to coordinate the on-the-ground logistics, from training thousands of technicians to locating test venues and equipping them for sterile, socially distanced testing, Important decisions about the test procedure and format needed time for debate and consideration.

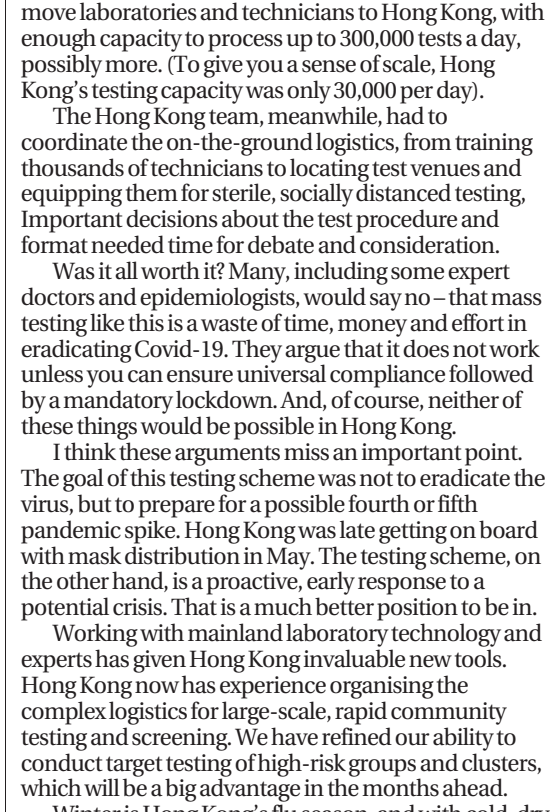
Was it all worth it? Many, including some expert doctors and epidemiologists, would say no – that mass testing like this is a waste of time, money and effort in eradicating Covid-19. They argue that it does not work unless you can ensure universal compliance followed by a mandatory lockdown. And, of course, neither of these things would be possible in Hong Kong.

I think these arguments miss an important point. The goal of this testing scheme was not to eradicate the virus, but to prepare for a possible fourth or fifth pandemic spike. Hong Kong was late getting on board with mask distribution in May. The testing scheme, on the other hand, is a proactive, early response to a potential crisis. That is a much better position to be in.

Working with mainland laboratory technology and experts has given Hong Kong invaluable new tools. Hong Kong now has experience organising the complex logistics for large-scale, rapid community testing and screening. We have refined our ability to conduct target testing of high-risk groups and clusters, which will be a big advantage in the months ahead.

Winter is Hong Kong's flu season, and with cold, dry weather comes the threat of another dangerous spike in Covid-19 infections. But we are prepared now, because we know we can mobilise testing on a scale we could not have before. That is nothing to sneeze at – and absolutely worth it.

Bernard Chan is convenor of Hong Kong's Executive Council



An elderly woman takes the coronavirus swab test at a screening centre in To Kwa Wan. Photo: Winson Wong