INSIGHT

Pressure relief?

Christine Loh looks beyond the unsurprising array of populist concessions and subsidies in the budget and finds cause for complaint, despite John Tsang's apparent desire to counter the difficult times ahead

Nothing, it seems, can undermine the resilience and resourcefulness of Hong Kong people and its business community. The budget shows yet again just how strong public finances are. A large surplus – HK$66.7 billion – is estimated for the current year, and Hong Kong can look forward to growth despite a tough general economic outlook. Financial Secretary John Tsang Chun-wah revealed that, by this time next year, the fiscal reserves are expected to equal 34 per cent of gross domestic product, or equivalent to 20 months of government expenditure.

He proposed various minor tax concessions and subsidies, such as waiving rates and business registration fees, halving import and export declaration charges, one-off cuts in business and profit tax, and handouts for electricity charges and public housing rents.

These were essentially populist gestures, although the financial secretary says he wants to relieve the pressure on families, create jobs and fight inflation in the difficult months ahead.

But there are likely to be complaints.

For example, salaries tax allowances were raised but without any proper explanation of how the concessions were decided. For the basic and married person's allowance, the increase was 11 per cent – double the rate of inflation last year and well above the 3.5 per cent headline figure he forecast for 2012. Yet, for dependent parents and grandparents, the allowance was raised by only 5.5 per cent.

He boasted that the 11.1 per cent increase of median household income from HK$18,000 to HK$20,000, "an increase of 5.1 per cent in real terms", reflected "an improvement in the livelihood of grass roots in the past year". In 1997, however, median household income was already HK$19,000, so progress has been very slow.

He could have done more for all of us by making the cost of medical insurance to individuals tax-deductible. It was lamentable that the financial secretary failed to make this tax concession although it had been an election pledge of the chief executive.

His budget also failed to give all 360,000 needy students who currently receive help the full remission of their transport fees, and textbook and other costs. Moreover, his various education initiatives this year were largely focused on the already privileged and self-financing sectors of the education system, which makes his miserly attitude towards students from poor families that much harder to understand.

One good decision was the announcement that an additional HK$200 million will be provided to increase the number of first-year first-degree places in medicine by 100, nursing by 40 and allied health by 146. This measure will assist in tackling the crisis caused by the shortage of doctors and nurses that is especially acute in the public sector.

What about the Community Care Fund? Tsang could have filled the shortfall created by the failure of the chief executive to raise the full HK$5 billion he had forecast in donations from the business community, to provide welfare services that are currently not available. But the financial secretary preferred to heap vague praise on the fund and its performance, while leaving it to find its own financial solutions.

Platitudes are unlikely to promote confidence in the ability of officials to get things done

With regard to promoting Hong Kong as an international financial centre, there were no concrete initiatives to find a way to accelerate the expansion of the renminbi market. All Tsang felt able to say was that "we should improve our market infrastructure, seek to enhance the market connectivity of the mainland and Hong Kong and increase our market capacity".

These platitudes are unlikely to promote confidence around the world in the ability of Hong Kong officials to get things done in Beijing. He could at least set up a specialist body with credible experts to help identify practical solutions to expand international use of the renminbi.

On Islamic finance, Tsang hopes to introduce legislation before he steps down as "we are close to finalising the draft amendments to the relevant legislation". For some reason, this has taken a very long time since a dedicated team was set up in 2007 to promote this type of financial service.

He ended on a note of pathos, making an effort to show how much he has done personally for the economy and community during this administration, together with an attempt to present himself as a "team player" with legislators.

"I shall never forget the days when we were working together to fight against the financial turmoil," he said. He must be finding political life very much harder today.

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High voltage

Timothy Peirson-Smith cautions against invoking a rarely used Legco power to force electricity suppliers to reveal sensitive information

The Legislative Council is split again, with a non-business cohort criticising the government, Hong Kong power companies, new energy tariffs and the tariff review process, claiming a lack of transparency. This has created a situation in which lawmakers, under Legco's Powers and Privileges Ordinance, are demanding that both power companies disclose confidential information to determine if their tariff increase is reasonable.

This is a request that all pro-business legislators, Hong Kong businesses and, more importantly, the government, should resist, as once Legco has received this information, past precedents suggest it is only a matter of time before it makes its way into the hands of the public. Thus, it carries the risk of backfiring and threatening Hong Kong's reputation as a trusted place to do business, and increasing prices for Hong Kong goods and services.

One must critically question whether it is really in the public interest to use the "in extremis" ordinance in all situations.

All Hong Kong businesses should be concerned that the ordinance could become a de facto "reveal all" tool when Legco does not like what it sees in the government's contracts, a scenario that could give both existing and prospective business partners of the government cause for concern.

Consider a scenario where either power company seeks cleaner fuels to meet stricter air pollution standards. If it becomes known, via the ordinance, that there are few suppliers of suitably clean fuel, both power companies would lose key bargaining tools that assist in keeping tariffs down. Suppliers, knowing the companies have no other fuel options, could potentially raise their prices, with the increases passed on to consumers.

It is crucial for all Hong Kong businesses to understand that this scenario could potentially play out across all industries, with serious implications for Hong Kong Inc – and, worse, local consumers. If the ordinance were to be commonly used to disclose sensitive information, not anticipated at the signing of a business contract, Hong Kong's international reputation could be affected.

So, if Legco votes not to exercise its power under the ordinance, what else should it call upon to ask businesses to furnish information that is squarely in the public interest?

The ordinance is appropriate in extreme circumstances, such as in 2008, when banks were investigated for selling risky minibonds to unqualified investors. However, in a non-extreme case, such as the tariff review, the appropriate mechanism is the disclosure provisions in contracts between the government and its business partners; in the tariff case, the scheme of control agreement.

Government, pro-business legislators and Hong Kong business need to stand shoulder to shoulder to protect Hong Kong Inc's reputation.

Such a stance would support Hong Kong as a trusted business partner, a reputation worth protecting. Setting a precedent for wider use of the ordinance has the potential to weaken Hong Kong's future business health and investors' appetite.

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Blame negligent officials, not mainland tourists

Lau Nai-keung says it's unreasonable for locals to vent their frustration this way

In a speech just months before the handover in 1997, Tung Chee-hwa declared with unbounded optimism: "What is good for Hong Kong is good for China, and what is good for China is very good for Hong Kong." Like many of us, he saw Hong Kong joining the motherland as a win-win situation.

Mostly it has been, and Hong Kong has gained a lot in the past 15 years. But that has not made everybody happy, and when it turns out that a prospering country has meant chipping away at the welfare of some of us here, an us-against-them antagonism has gradually built up. It exploded around the Lunar New Year.

First there was the Dolce & Gabbana incident, with hundreds of angry locals converging in front of its shop in Canton Road in protest at action by one of its security guards. After a week of public bombardment, the fashion chain issued an apology.

While this can be perceived as a public relations disaster, the uploading onto YouTube of a clip showing the confrontation between locals and mainland visitors over a child eating on the MTR sparked an angry response from a Beijing scholar. He called Hongkongers "dogs", and that in turn triggered protests outside the central government's liaison office and on the web. It has also become international news.

I watched the full version of the MTR video clip on a mainland website. It seemed that the Hongkongers were the ones who wouldn't drop the issue even after the child stopped eating following their angry outbursts. They created a storm in a tea cup by pressing the emergency button, stopping the train and summoning MTR staff with the idea of having the mainlanders ejected from the carriage and punished. Any objective viewer would sympathise with the mainlanders; it was the Hongkongers who were guilty of disorderly conduct and endangering public safety.

As for the name-calling part, the scholar was referring to some Hongkongers who still cling to a colonial mentality of discriminating against their compatriots. No matter how you react to his comments, he is entitled to his opinion, which to a very large extent reflects that of quite a number of people across the Shenzhen River. And, for that matter, it is the Hongkongers who have called mainlanders "Ah Chan" in the past (a name popularised by a character in a 1979 TV show, meaning country bumpkin) and recently labelled them "locusts".

These two incidents seem quite immaterial and, from what I have observed, did not spoil the fun of the hundreds of thousands of mainland tourists who flocked here during the holidays.

What really hurts is the fight for maternity beds in Hong Kong, which will get worse during this Year of the Dragon when more babies are expected to be born. Of course, this is perfect electioneering material in the run-up to the chief executive and Legislative Council elections. What we have here is a clear case of government failure. Officials should have seen it coming, following the Court of Final Appeal ruling more than a decade ago that all Chinese nationals born in Hong Kong are entitled to permanent residency. But, instead, they just sat there watching the relentless rise in mainland babies and did nothing.

Wherever there is a clear legal loophole, people are bound to use it to their advantage. Remember the flow of pregnant Hong Kong women during the 1990s to the US so their babies would be born American citizens? If anyone wants to protest about the latest situation, they need to see Donald Tsang Yam-kuen, and, for that matter, Henry Tang Ying-yen. They should be held accountable. The same is true for high property prices; don't blame mainlanders, lay it at the doorstep of the government.

People shouldn't vent their anger on innocent mainland visitors. After all, they come here to spend money and support our tourism industry. Aren't we ashamed of ourselves for such an ugly emotional outburst?

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Hanoi gets ready for a looming resource fight

Geoff Bell is not surprised by Vietnam's naval expansion, given oil and gas finds in a disputed sea

Vietnam has been investing heavily in its armed forces and drawing plenty of attention – especially from China. Beyond nationalism, why is Vietnam seemingly getting ready for a fight? Well, the very survival of the regime in Hanoi may depend on securing a large share of the oil and gas beneath the seabed.

The Communist Party of Vietnam has two main claims to legitimacy: it is a nationalist movement that got rid of colonial occupiers, and it ditched Marxism for capitalism, spurring incredible economic growth.

However, that record of good fiscal management is in jeopardy. It's gone little noticed abroad, but Hanoi already faces a perilous financial situation: inflation topped 18 per cent last year; the banking sector is in crisis, with a growing portfolio of bad loans, and needing an injection of foreign capital; and the nation has large current-account and trade deficits. In July, foreign-exchange reserves ran down to two months of imports, though that did improve in the latter half of the year.

Simply put, successful long-term trade requires both parties to have something the other wants. So, if Vietnam wants to import turbines from the US to run a dam, it has to be able to trade enough shoes and/or rice to the US to pay for it. Right now, Vietnam competes in the world market largely on price rather than the uniqueness of its products.

This is why fossil fuels are such a critical export product, and Vietnam has expertise in finding and developing them. Vietnam's oil industry is one of the country's biggest foreign-currency earners. In 2011, it sold 15 million tonnes of oil, worth about US$11 billion – around 11 per cent of total exports.

Vietnam has in recent years undertaken robust exploration, and those efforts may have paid off. In October, US oil giant Exxon Mobil announced a "potentially significant" oil and gas discovery off the coast near Danang. While the find is well within Vietnam's 200-mile exclusive economic zone under international maritime law, it's also in an area claimed by China. So, development of this find could quickly cause tensions to rise. And, this is not the only place where China is contesting Vietnamese efforts.

That's why Vietnam has been gearing up to defend its turf; buying short-range ballistic missiles, fighter planes, frigates with anti-ship missiles and Kilo class submarines.

In essence, Vietnam is taking a page from what China has been doing to neutralise the US navy, buying armaments to counter an adversary with superior military capability. The bottom line is that any potential adversary in the South China Sea will find Vietnam no pushover, and highly motivated.

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In the end, change is a test of our values

Jeffrey Sachs says technological advances are necessary, but not enough, for sustainable growth

Sustainable development means achieving economic growth that is widely shared and that protects the earth's vital resources. Our current global economy, however, is not sustainable.

UN Secretary General Ban Ki-moon has rightly declared sustainable development to be at the top of the global agenda. We have entered a dangerous period in which a huge and growing population, combined with rapid economic growth, now threatens to have a catastrophic impact on the earth's climate, biodiversity and fresh water supplies.

Ban's global sustainability panel has issued a new report that outlines a framework for sustainable development. It rightly notes that it has three pillars: ending extreme poverty; ensuring prosperity is shared by all; and protecting the environment.

The panel has called for world leaders to adopt a new set of Sustainable Development Goals that will help to shape global action after the 2015 target date for achieving the Millennium Development Goals.

It is, of course, one thing to set the goals and quite another to achieve them. The problem can be seen by looking at one key challenge: climate change. Today, there are seven billion people on the planet, and each one, on average, is responsible for the release each year of just over four tonnes of carbon dioxide into the atmosphere.

By 2050, there will most likely be more than nine billion people. If these people are richer than people today (and therefore using more energy per person), total emissions worldwide could triple. This is the great dilemma: we need to emit less carbon dioxide, but we are on a global path to emit much more.

So, how can the world's people – especially the poor – benefit from more electricity and more access to modern transport, but in a way that saves the planet rather than destroys it? The truth is that we can't – unless we improve dramatically the technologies that we use.

We could achieve huge reductions in carbon emissions by, for instance, converting from our current cars to small, lightweight, battery-powered vehicles running on highly efficient electric motors and charged by a low-carbon energy source such as solar power.

Beyond technology, getting to sustainable development will also be a matter of market incentives, government regulations, and public support for research. But even more fundamental will be the challenge of values. We must understand our shared fate, and embrace sustainable development as a commitment to decency for all human beings.

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