

CPG China AGM

Wednesday 28 November 2012 – Committee Room 5

Minutes

Apologies

Anna Tomlinson

Cathy Gu

Donna Malone

Douglas Reid

Fiona MacLean

Helen Ford

Jie Chen

Gil Paterson, MSP

Claudia Beamish, MSP

Colin Keir, MSP

Jackie Baillie, MSP

Ken Robinson

Lindesay Low

Martin Bell

Peter Kwok

Robert Brennan

Siobhan Paterson

Carol Turnbull

Jamie McGrigor, MSP

John Scott, MSP

Richard Simpson, MSP

Attendees

Graeme Pearson MSP

Professor Christine Wong

Chic Brodie MSP

Hugh Henry MSP

Carole Couper

Robert Dalzell

Edmund Hoffie

Graham Thompson

Hong Zhang

Helena Brown

Isabella Jackson

James Trolland

Jane Duckett

Judith McKerrecher

Meryl James

Neil Phillips

Simon Macaulay

William Wilson

Ya Ping Wang

Connie Zhu

John McKenzie

Rachael Scott

Susan Brown

Hannah Graham

John Somers

Caroline Henderson

Andrew Ritchie

Brian Cherry

Bella Wang

Dr Roger Collins

Donald MacDonald

Cat MacDonald

Leanne Bell

Presentation by Professor Christine Wong, Professor of Chinese Public Finance and Fellow of Lady Margaret Hall at the University of Oxford.

Professor Wong spoke in detail about Chinese public finances – a copy of her presentation is attached.



Prof Wong -
Challenges of municip

A Q&A session was subsequently held:-

Q	Chic Brodie – In current situation, the economy is slowing down. How does Bank of China control monetary policy and land finance for housing etc – marrying demand and income?
A	<p>On monetary policy, it is very frustrating for Central Bank as their powers are so limited. They are powerless, for example, to resist taking on demobilising soldiers as staff – when they finish their term in the army. (They are assigned a job for life in factories, banks etc regardless of their qualifications.) Monetary policy is managed by a committee and Chinese monetary policy is much more difficult to steer.</p> <p>On the housing problem, because of land finance and LICs, house prices are rising. White collar workers can work up to 50 years to pay for their houses. In 2010/2011 there was a clamp down on housing and buyers were asked for a lot more cash as a down-payment to try to tamp down the spectacular demand on houses. Last year, house prices were slightly falling but are again rising.</p> <p>Land sales were slow in 2011 and very slow in 2012. LICs are premised on servicing loans by selling more land.</p>
Q	Robert Dalzell – Central Government revenue had increased whilst Central Government expenditures had decreased.
A	Central Government argue that to play a central role they need to take up more, which they are doing but it is not effective enough.
Q	The Chinese population is aging with increased pressure on the budget and on the Social Security system. Will the government step in and do something and re the land problem, has the bubble burst?
A	The land market bubble has burst a little. For Social Security, the problem is how to pay for the aging population. Government budget spend 20% propping up this fund. On pensions, it is up to each city to set rates of contribution. Shanghai's pension contribution is high at 40/50% of payroll, whereas in industrial cities such as Dongquan it is 10% of payroll.
Q	Is one of the solutions to increase retirement age from 50 women/55 men to 55 women/60 men?
A	Yes, Government always say we can raise retirement age but this is a hot

	potato – Government needs to feel more loved before taking this step.
Q	What are they doing to tackle the debt problems of loans in the Central Bank?
A	Local Government has 14 trillion yuan estimated in LIC loans. From this figure, 8-9 trillion yuan will go bad. Global economy was much more supportive in the 1990's (and that helped them deal with the problem of non-performing bank loans that decade) but it is not so supportive today. This is a big problem.
Q	Edmond HOFFIE – I have lived in China for 10 years and have seen an increase in the number of people buying property and cars – underground car parks are full. Is the property market going to burst? There is no re-sale market in China as people are just beginning in the property market. Property prices are going up based on what? You have the 'haves' and the 'have nots' and possibly even the 'never wills'. The 'have nots' and 'never wills' are prepared to put their lives on the line and we are seeing an increase in uprisings and protests, particularly in the older generation
A	There are hundreds of thousands of protests in China every year. The Public Security Bureau issues bulletins of mass incidents. More recently these are becoming more violent – turning cars over etc - as people are losing faith in the government and are very frustrated at victims being unfairly treated. Chinese families are getting smaller – they are not all 'single children families' but families are getting smaller. As late as 2002/2004 social scientists found the happiest people were migrants as they were so much better off than where they came from. On the re-sale value, the price of a flat in Bangkok is not rising as there is no resale market in Bangkok. Every new building is so much better than the older ones. People don't want to buy older properties. Eventually, as cities get more congested, location will be everything and the market will determine the prices.
Q	What effect is urbanization having on food production if people are moving to cities?
A	The Chinese government does not seem worried about self-reliance in the food economy. Some of its leading officials say that 'we can buy from Brazil', etc. China is consuming more imported foods.
Q	The new government will be looking at figures. Do they have the courage to respond in the next 5 years?
A	I hope so.
Q	Graeme Pearson – The government has clarity on what it wants to do. Did the People's Party have the ability to change – the government said yes, freedom to speak.
A	When you talk to government officials they are very confident that China has changed. Public intellectuals however are very pessimistic. But the government is looking at solutions all the time – there are forward looking ministers. However the Ministry of Finance is relatively slow to react.

Q	Carole Couper – Don't like to use the word 'corruption' but the boundaries between private and public money are blurred. Shopping malls are empty of shoppers but fully stocked.
A	Xi Jinping, soon-to-be new President, has made 2 speeches to government that have been absolutely correct – we have to fix the problem of corruption. There is a big reliance on investment – 50% of GDP goes on investment.
Q	Graeme Pearson asked about subways being built.
A	A World Bank study on subway projects was conducted. World Bank asked for a technical assistant's report which looked at optimum routes to serve the population. Light rail is much easier, underground rail is much more expensive. In every case they chose the expensive one but no city had a financial plan. They say – get the project approved and the money will come. The government will step in. 1990's loans were paid for by squeezing out of savers. Central Bank wanted the Ministry of Finance to pay for it. Central Government raised lending rates and kept deposit rates the same and forced savers to pay – rather than raising taxes.

Graeme thanked Professor Wong for her attendance and obtained her permission to circulate her presentation to the group members.

Next meeting

The next CPG China meeting will be held on Tuesday 29 January at 18:00 hrs. Agenda will follow later.