



MAN OF THE YEAR 2015

There is Always Hope!

How competitive is China? The answer to this question determines the socio-economic future of Asia. *AMANDA LI* takes a broader look.



Li Keqiang: “We will resolutely declare war against pollution as we declared war against poverty”.

China’s trajectory of unprecedented growth and development has had its consequences, mainly concerning issues of environment and public health. Such environmental issues generate a magnitude of adverse effects, such as contaminated water, high levels of air pollution, as well as real costs on the health system, the individuals, and even the economy.

Ten years ago, China’s involvement with the global economy was based heavily on manufacturing. However, more recently, certain trends have emerged, which include the migration of rural inhabitants to towns and cities, improved education, increased consumerism and an expanding middle class. Such trends have prompted questions regarding China’s cost-competitiveness.

Still Good as Gold?

Investment prospects for China have changed in recent years. In 2008, alterations to labour laws resulted in significant annual pay rises for Chinese workers. Consequently, escalating costs led some US companies to repatriate their factories.

Considerable risks in investments have also surfaced. One major threat is China’s demographics, which follows the West’s demographic pattern of having the post-war baby boom reach retirement.

This pattern is exacerbated by China’s one-child policy, which is contributing to an aging population, insufficient taxation due to lack of the younger generation, and resulting in harm to the economy since those who are retired spend considerably less than those of working age.

Another significant investment risk is the fact that many of the largest companies in China are state-owned enterprises. Therefore, though foreign investors

can obtain shares in the companies, the government is often given priority over these shareholders. Yet another issue is corporate governance, where company accounts are frequently incomplete or inaccurate.

Cost-Competive?

In addition, the Boston Consulting Group (BCG) Cost-Competitiveness Index has found that global manufacturing costs have shifted in the past decade. So much so that nowadays, Mexico actually has lower manufacturing costs than China.

China is traditionally perceived to be a low-cost manufacturing base, but since 2004, its cost advantages have actually began to erode significantly. This can be attributed to the confluence of rapid rise in energy costs, lagging growth in productivity, sharp wage increases and unfavourable currency swings.

Thus, China's manufacturing-cost advantage over the US has been reduced to less than 5%. However, it is important to note that China remains on BCG's list of top 10 most competitive export economies.

Burden of Pollution

China's trajectory of unprecedented growth and development has had its consequences, mainly concerning issues of environment and public health. What makes these problems even more troubling is the potential for them to restrict future growth.

Such environmental issues generate a magnitude of adverse effects, such as contaminated water, high levels of air pollution, as well as real costs on the health system, the individuals, and even the economy.

In February 2014, one of Shanghai Academy of Social Sciences' reports claimed that Beijing's pollution deemed the city almost "uninhabitable for human beings".

According to a 2014 joint report by the World Bank and the Development Research Centre of the State Council, premature deaths and health issues generated by air pollution is costing China \$US100 billion to as much as \$US300



According to a 2014 joint report by the World Bank and the Development Research Centre of the State Council, premature deaths and health issues generated by air pollution is costing China \$US100 billion to as much as \$US300 billion a year.

billion a year. In particular, former Chinese health minister Chen Zhu pointed towards studies that determined that air pollution caused as much as 500,000 premature deaths annually.

The joint report also underscored long-term health implications of China's pollution problem. Namely, the poor quality of air often severely affects infants and young children, with the potential of causing birth defects and impaired cognitive functions.

In addition, according to the 2012 Cancer Registry Annual Report, lung cancer is the top type of cancer that people in China are affected by and are killed

by. The number of lung cancer-caused deaths has also increased by a staggering 465% in the past 3 decades. Yet according to the report, "Tobacco Control and China's Future, there was no significant change in China's overall smoking rate in the last decade. Therefore, air pollution is arguably the major cause of such increase in lung cancer rates.

Health Crisis

Experts are now comparing China's pollution health crisis to the SARS epidemic of 2003. Similarly, China is now experiencing risks of overburdening their medical system by overworking their health professionals and overprescribing drugs.

Another strain on the medical system is the commonality of bribes paid by patients in order to secure competent care. In fact, the level of trust has disintegrated so severely that in 2010, there were 17,000 cases of attacks on healthcare workers.

China's leadership has recognized this plan and proposed ambitious plans to improve the quality and affordability of China's healthcare system. Such plans include price controls for drugs and a radical transformation of health insurance.

However, the implementation and impact of these plans will unlikely be timely enough to address the urban air pollution emergency. It is also troubling for the Chinese government as the pollution problem is pushing the focus of public opinion upon the inadequacies of China's medical system. Indeed, China fails to operate a functioning primary care network. Subsequently, 95% of healthcare is provided by hospitals, which then leads to waste and overcrowding. As demand for medical care

Li Keqiang's Report

"We must be keenly aware of the many difficulties and problems on our road ahead. The main ones are: The foundation for sustaining steady economic growth is not yet firm, and the internal impetus driving growth needs to be increased. Risks and hidden dangers still exist in public finance and banking; some industries are heavily burdened by excess production capacity; and the exercise of macro-controls has become more difficult. Increasing agricultural output and rural incomes is becoming more difficult.

"Air, water and soil pollution is severe in some places, and the task of conserving energy and reducing emissions remains arduous. There are major structural problems constraining employment. There are still many problems which people are unhappy about in housing, food and drug safety, medical services, old-age services, education, income distribution, land expropriation and resettlement, and public order.

"Serious and major industrial accidents occur frequently. The social credibility system needs to be improved. Some government employees are prone to corruption and some still do not perform their duties with integrity and diligence."

"Serious and major industrial accidents occur frequently. The social credibility system needs to be improved. Some government employees are prone to corruption and some still do not perform their duties with integrity and diligence."



rises due to China's pollution problem, another major issue in China's health-care system is underscored. The level of trust between patient and doctor is so low that before a problem even surfaces, both sides have already begun gathering material for litigation.

Giving China a Miss?

In fact, China's pollution problem has become so dire that foreigners are becoming increasingly affected by and weary about the situation. Regarding tourism, air pollution has grounded flights, and forced tourists to stay at home. The issue of pollution has also considerably affected the influx of foreign business into China. The American Chamber of Commerce in Beijing, for example, has found that it's becoming increasingly harder for foreign firms to convince top executives to work in China. In particular, a survey conducted by the American Chamber of Commerce determined that out of 365 foreign companies, approximately 48% claimed that concerns regarding air quality were turning senior executives away from China. According to Reuters, in recent years, several high-profile executives have left China, often pointing to pollution as the main reason for their departure. ■

Photographs Courtesy:

Li Keqiang Personality: New York Times; Declaration of War on

Pollution: Blouin News; Water Pollution: Business Insider;

Solar Power: The Guardian; Aging Population: ProjectM