Golden moments

Edward Tse and **Paul Pan** say multinationals' experience in China varies, depending on the sector and the company's ability to adapt. Some are thriving, notwithstanding the antitrust crackdown

Multinational corporations are in the spotlight these days. Recently, the Chinese government has accused a number of foreign companies of violating the anti-trust law. Mercedes-Benz, Audi, Microsoft, and some Japanese car parts companies have been among those charged.

In fact, this is nothing new. Last year, Beijing also charged a number of foreign milk powder producers with alleged "abnormal price fixing", while pharmaceutical companies – including, most notably, GlaxoSmithKline – were caught in bribery and corruption scandals.

According to the results of a business confidence survey by the European Union Chamber of Commerce in China, conditions in China are getting tougher. There's an entrenched sense of pessimism within the European business community, as persistent market challenges show little sign of abating.

In turn, according to the chamber, many companies are setting more modest expectations for revenue and profitability growth and are scaling back their investment plans for the Chinese marketplace. Is the "golden age" for foreign companies in China over?

Multinational corporations started making significant investments in China in the early 1990s, especially after Deng Xiaoping (鄧小平) took the now famous "southern tour" in 1992. After more than 20 years of investing in China, these companies' attitudes have changed dramatically.

Broadly speaking, there are three groups of companies distinguishable by their market views. The first includes multinational corporations that have come to China, made investments and, being unsuccessful, decided that China is not their cup of tea.

They have found it difficult to earn a profit and some have withdrawn from the Chinese market. Examples include Home Depot, Best Buy, Media Markt and Mattel. PepsiCo, for instance, sold its bottling business in China to Taiwanese company Tingyi Holding, which has a broad distribution network across China.

The second group are those in sectors that exhibit overcapacity in China, such as cement, steel, solar panels and the like. These companies are typically in a wait-and-see mode – waiting to see if and when the overcapacity can be managed away.

The final group of companies are those that have found China to be a major, and often highly profitable, market. For them, China is one of the largest markets in the world, if not the largest. Prime examples are the carmakers Audi/Volkswagen Group, BMW, Daimler and General Motors. It also includes others like Yum Brands, Starbucks and Apple.

For these companies, the golden age in China is here and will probably continue in the near future. At a recent meeting, the China head of a leading premium-car maker told me that his company sees huge opportunities in China and one of their biggest challenges is how to build the production capacity fast enough to capture the upcoming market demand.

In short, multinational corporations' views of China depend on their relative market position, and there isn't a single uniform view.

> **The rapidly changing, complicated and ambiguous operating environment can catch MNCs off guard**

Nonetheless, as China evolves, there are a number of recognisable patterns. On the one hand, Beijing continues to open more sectors to non-state capital (recent examples include commercial banking and telecom operations); on the other, it is also visibly applying more stringent laws and policies such as antitrust and anti-corruption measures.

In the open sectors, competition is intense, often the most intense in the world. In addition to their usual global competitors, multinational corporations will also have to deal with local competitors, some state-owned, some privately owned. While multinationals are fairly used to how other multinationals compete, the ways Chinese companies compete is often quite different, and therefore surprising. On top of all this is the rapidly changing, complicated and ambiguous operating environment in China that can catch multinationals off guard. Increasingly, many realise that they cannot apply their cookie-cutter ways of working to China and that they need to adapt.

As China evolves into a market economy, it has been trying to learn from other countries, benchmarking and adapting other practices into the Chinese context. A notable example was how the Chinese recognised – from US politicians – the application of national security to businesses, after a bid by China National Offshore Oil Corporation to buy the US energy company Unocal was rebuffed in 2005.

China's antitrust legislation, largely modelled on EU law, came into force in 2008. The Chinese have insisted that the law applies equally to foreign companies and Chinese ones. In fact, last year, two state-owned liquor companies, Kweichow Moutai and Wuliangye, were fined 247 million yuan (HK$310 million) and 202 million yuan respectively after being found guilty of price fixing.

Foreign companies have registered concern over the recent antitrust crackdown, especially the use of "intimidation tactics". It is unfortunate that, quite often, when the Chinese authorities begin to implement certain new practices or laws, their execution can be quite unpolished. Over time, things are likely to improve.

But it's ironic that many of these same multinational corporations which are now raising concerns are the same ones that have complained about the lack of law and order in China.

Though economic growth in China has slowed, the growth of some sectors continues to be very strong. The internet sector, for example, is growing by leaps and bounds. Companies such as Alibaba, Tencent, Xiaomi and JD.com are commanding huge valuations.

The health care and environmental sectors, for instance, are also growing fast. According to Liang Xinjun, chief executive of the Fosun group, a large Chinese conglomerate, in several years, the size of the "big health" sector, which includes all businesses along the health value chain, will exceed that of the property sector that has been the engine of growth in China for the past decade.

In a complicated and fast-changing environment, there are tremendous opportunities and challenges for everyone, multinational corporations included. They need to know how to strategically anticipate and capture these opportunities and handle the challenges.

Foreign companies which can see the opportunities in China will stay and continue to invest, whether or not there's an antitrust crackdown. And if they manage to build the right capabilities on the ground, enabling them to compete effectively, then the answer to the question of whether the golden age is over will be a resounding "no".

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Support act

Su-Mei Thompson rallies the public to back proposed changes to Hong Kong's discrimination laws that will improve rights protection for all

The Equal Opportunities Commission has launched a public consultation on its review of Hong Kong's discrimination laws. So far, the most vociferous responses have come from the anti-mainland lobby and from anti-LGBT groups.

The anti-mainland lobby has accused the commission of being a stooge of Beijing for proposing protection from discrimination based on immigration or residency status, which could prohibit the now common use of the slur "locusts" to refer to mainland visitors.

Meanwhile, although same-sex marriage is outside the scope of the review, religious and other conservative groups are upset by the suggestion that the definition of marital status could be widened to include de facto relationships, since this could lead not just to heterosexual de facto couples, but also homosexual couples being entitled to employment, health and other benefits.

We are concerned that the incendiary rhetoric employed by some groups is distracting attention from the review's overall goal, which is to seek the public's support to modernise and improve the protection afforded by the four ordinances that cover discrimination on the grounds of sex, family status or responsibilities, race and disability.

We hope that the community will rally in support of the many important recommendations that address inconsistencies and gaps in the protection given to pregnant women and new mothers in terms of job security, women working in the services industry who are sexually harassed by clients, and women in the workforce who are not receiving equal pay for work of equal value.

Expanding the scope of protection to couples in de facto relationships will improve the rights and benefits enjoyed by the many women (and men) who are in long-term relationships but who have eschewed marriage. Further, a proposed duty on public authorities to promote equality could help improve access to education by ethnic minority groups, not least their girls.

The proposed reforms will also make it clear that the government and all public authorities are subject to the ordinances and make it unlawful for them to discriminate in the exercise of their powers.

The review comes at a time when there is acute awareness across Hong Kong of equality issues. This also happens to be the year when Hong Kong's compliance with various UN human rights charters undergoes periodic review. Thus, the review offers an opportunity for Hongkongers to signal to the world that ours is a diverse, tolerant city which upholds equal opportunity for all.

This requires businesses, academia, the non-government sector and the rest of the community to support the proposals to consolidate and reform our discrimination laws to bring them in line with international best practice and UN recommendations. Beyond this, through the review, we can assert to the world that Hong Kong wants a human rights commission that will be guided by international human rights laws and that will scrupulously promote, monitor and defend the human rights of all in Hong Kong.

Su-Mei Thompson is CEO of The Women's Foundation. This article is part of a monthly series on women's and gender issues developed in collaboration with the Foundation

Airport Authority's fixation with third runway is blinding it to other options

Albert Cheng says more feasible ways to reduce airspace congestion must be considered, not least because of the hefty costs of airport expansion

Over the years, the Airport Authority has been funding research and more research to legitimise its claim that Hong Kong needs a third runway. The findings have boiled down to a single conclusion – that the proposed three-runway system is environmentally acceptable and economically indispensable.

Another such report – an environmental impact assessment – was submitted to a subcommittee of the Advisory Council on the Environment for endorsement earlier this month. In a nutshell, the document concludes that mitigation measures can limit the potential damage to the environment to within permissible levels.

This is what sociologists refer to as "instrumental rationality" in action. It is all about finding ways to achieve one's defined goals with the available resources, whether or not the goal is worth the cost.

Thus, a person who believes he is a dog might be considered instrumentally rational as long as he acts in accordance with canine beliefs and desires. If he's got his eye on a bone for lunch, he would yap and howl in order to get it.

The third runway is the metaphorical bone for the Airport Authority. To the exclusion of other considerations, it has convinced itself that a third runway is the only way to keep Hong Kong vibrant as an aviation hub. The feasibility studies – economic, technical and environmental – are just a means to that preconceived end.

The authority's latest bark came in the form of its environmental report.

Green groups have dismissed the assessment as a whitewash. More importantly, members of the council's subcommittee were sceptical, too.

In particular, they voiced doubts that the Chinese white dolphins, which would be displaced during construction, would come back to a new marine park as claimed.

After three days of deliberation, the panel withheld its recommendations. Members said the report lacked hard data to substantiate its claims that the environmental impact would be acceptable.

> **The third runway is the metaphorical bone for the Airport Authority**

This should be a wake-up call for the authority.

Environmentalists say there are alternative ways to solve the supposed congestion at Chek Lap Kok.

Green Sense's Roy Tam Hoi-pong noted that the Chinese military required flights leaving Chek Lap Kok to enter mainland airspace at a minimum height of 4,800 metres. To do this, planes from Hong Kong have to first head south and fly in circles to climb to that altitude, wasting up to 20 minutes of flight time. The reverse applies for flights landing in Hong Kong.

Hong Kong's existing two runways are designed to accommodate between 82 and 86 flights an hour. The tally actually achieved is fewer than that, thanks to this "sky wall".

What Tam did not point out was that, whatever the military requirement, there is a stronger reason why careful coordination is necessary: the Hong Kong and Shenzhen runways are positioned close by, at right angles to one another.

During the economic slowdown in the wake of the 1989 Tiananmen Square crackdown, the Shenzhen airport was looking for buyers. Some Hong Kong businessmen were serious about acquiring the facility. Unfortunately, the Hong Kong authorities sat on their hands and failed to help the businessmen clinch a deal. The window of opportunity was lost.

If both Chek Lap Kok and Shenzhen were under the same command, aircraft movements could be more easily coordinated, within one large airspace rather than the two disparate ones now.

The authority's executive director for corporate development, Wilson Fung Wing-yip, told the press that once the third runway was operational, the sky wall problem would be solved. But he did not spell out how.

He has put the cart before the horse. If the Hong Kong authorities can be more determined in dismantling this invisible barrier, taxpayers will not have to foot an estimated bill of some HK$200 billion for an additional runway.

This should be a big enough economic incentive to demand that our negotiators try harder.

Could we pay off Shenzhen with that amount to ask them to move their airport to a location where the sky wall will no longer be relevant to us? This is, of course, a long shot.

The former head of the Observatory, Lam Chiu-ying, suggested a more realistic solution. He argues that the airport's capacity can be markedly improved by allowing the use of more wide-body planes.

Building on that premise, we can follow the practice of other advanced economies, whereby priority is given to bigger aircraft. The remaining capacity can then be auctioned to smaller planes. This can boost efficiency and raise revenues.

We may eventually need a third runway decades down the road. Meanwhile, we don't need to act like a dog.

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At stall speed, economies languish in a cycle of relapse

Stephen Roach says structural repair, not monetary tinkering, is needed

Relapse is the rule in the post-crisis global economy. In the US, Japan and Europe, GDP growth faltered again in the first half of this year. These setbacks are hardly a coincidence. Persistent sluggish growth has left major economies vulnerable to the inevitable bumps in the road.

Sure, there are excuses. A contraction in the US economy in the first quarter was dismissed as weather-related. Japan's plunge in the second quarter was blamed on a sales-tax hike. Europe's stagnant growth in the second quarter has been explained away as an aberration reflecting the confluence of weather effects and sanctions imposed on Russia.

The latest slowdown in developed countries is not so easily dismissed. Lacking cyclical vigour in the aftermath of severe recessions, today's economies are finding it especially difficult to shrug off the impact of shocks.

Consider the US. Though annual growth in gross domestic product is estimated to have rebounded to 4 per cent in the second quarter, following the 2.1 per cent first-quarter contraction, that still leaves average growth in the first half of the year at a measly 1 per cent.

The problem is even worse in Japan, where consumers brought forward expenditure in anticipation of the sales-tax hike. The 6.1 per cent first-quarter growth surge to which this gave rise was more than offset by a 6.8 per cent second-quarter contraction.

Europe's fragile economy has similarly failed to recover strongly enough to ward off periodic growth setbacks.

Collectively, the annual growth rate in the major developed economies averaged a little less than 0.7 per cent in the first half of 2014, a worrisome outcome, to say the least, for employment, deflation risk, global trade, and export-dependent developing economies such as China.

But there is another problem with persistently subpar growth: it provides no cushion to shield economies from unexpected blows. Such sluggish performance is the economic equivalent of "stall speed" – the heightened vulnerability that aircrafts can encounter at low velocity. Under such circumstances, it does not take much to lead to an aborted take-off, or worse.

> **Persistently subpar growth provides no cushion to shield economies from unexpected blows**

The analogy is all too apt today. Shocks, whether traceable to weather, geopolitical disturbances, strikes or natural disasters are the rule, not the exception. When hit by them, vigorously growing economies have cushions to withstand the blows and the resilience to shrug them off. Economies limping along near stall speed do not.

The big question is what should be done about it. The current approach, centred on unconventional monetary policy, is not the answer.

In the US, a lingering overhang of household debt implies that deleveraging and the rebuilding of savings continues to take precedence over discretionary consumption. In Japan, long-standing structural problems, such as ageing and a productivity malaise, can be addressed only through the so-called "third arrow" of Prime Minister Shinzo Abe's reform agenda, which remains woefully incomplete. And Europe faces a desperate need to build pan-European institutions to ensure banking and fiscal union, and to address serious competitiveness problems in France and Italy.

Unfortunately, the more that central banks give the impression that that they are on the case, and the more that markets cheer them on, the less pressure there is on politically gridlocked governments to deploy fiscal policy and push through structural reforms.

Myopic authorities need to take less guidance from frothy financial markets and focus more on the structural repair of a post-crisis world. This is a time for heroes, not cheerleaders.

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