

# China

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## Pedalling uphill

James Miles BEIJING

For China's leaders, the smog thickens

**A**fter a year of much debating, China's leaders are beginning a new one with what appears to be a common resolve: to push ahead with the economic reforms they believe vital to sustaining rapid growth. But President Xi Jinping, having consolidated his power with unusual speed, is far more hesitant about reforming the country politically. In 2014 he will tighten controls on the internet and keep a firm lid on dissent. He will not want calls for democracy to add to the stress of overhauling the country's economic model.

Liberals in China, and among Chinese communities abroad, will have democracy on their minds on June 4th, the 25th anniversary of the crushing of the Tiananmen Square protests of 1989. Memories of that bloodshed still haunt the ruling Communist Party; in recent years retired Chinese leaders have made a cottage industry out of producing books that try to distance them from the decision to open fire on the demonstrators. Some dissidents in exile have called for a "return to Tiananmen Square" on the anniversary in order to push for an end to one-party rule. Mr Xi will push back, hard.

He is unlikely to give ground either in Hong Kong, where pro-democracy politicians are planning an Occupy Central campaign in July, involving the blocking of roads in the main business district, to press demands for universal suffrage in 2017. China has promised that the territory's chief executive will be directly elected that year, but many in Hong Kong fear that only candidates

sympathetic to the party will be allowed to stand. Mr Xi worries that greater democracy in Hong Kong could embarrass the party and fuel demands in mainland China for similar concessions.

He will worry about Taiwan too. Mayoral elections in December could result in setbacks for the ruling party, the Kuomintang (KMT), which has been trying to promote better ties with China. Taiwan's president, Ma Ying-jeou, begins the year with his popularity in tatters and with the public deeply anxious about the impact of his push to remove barriers to cross-strait trade and investment.

### China's carbon emissions will reach twice the level of America's

China will become increasingly nervous about the possibility that the KMT will lose power in the presidential election due to be held in January 2016. Taiwan's main opposition party, the Democratic Progress Party, is far less eager to co-operate with the mainland.

At home, the focus will be on the economy. Communist Party leaders have forged a consensus on ways to proceed with reforms aimed at weaning the country off investment-and-export-led growth towards a reliance on domestic consumption. Details of their plans will emerge in the coming months. In March the annual two-week session of the country's rubber-stamp parliament, the National People's Congress, will see some of them unveiled. Highlights are likely to include greater freedom to trade rural land and moves to scrap the sys-

#### 2014 IN BRIEF

A Chinese lunar rover trundles around the Moon, in preparation for a possible manned mission later in the decade



James Miles:  
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tem of household registration, or *hukou*, that limits access to public services in the cities by migrants from the countryside. Urban residents will worry that this could undermine their privileges. Some will protest.

The days of big investment projects are still far from over. The coming year could see the finishing of several colossal ones: a \$2.9 billion space theme-park next to a newly built satellite launch-centre on the southern island of Hainan; the tallest skyscraper in China, if not the world (see box below); and a 1,776km (730 mile) high-speed rail line linking the far-western province of Xinjiang with the interior (part of it will traverse the Tibetan plateau, making it the highest bullet-train track in the world). Work is due to begin on a new \$11.2 billion airport for Beijing, scheduled for completion in 2018.

The leadership says the new growth model will be a

greener one. In 2014 or 2015 a milestone will be reached that will focus minds on why this is necessary. China's carbon emissions will reach twice the level of America's, having been level-pegging less than a decade earlier.

Mr Xi is probably less anxious about the impact of this on climate change than he is about another side-effect: the pall of smog that lies semi-permanently over many parts of China. Officials in Beijing will step up efforts to clear the capital's noxious air. The number of new vehicles licensed to use its roads will be nearly halved. A congestion charge similar to London's is being considered. But as with economic reform, such changes will face strong resistance—in this case from newly rich urban residents who see the ownership and use of cars as an inalienable right. China's fast-growing middle class could prove the undoing of the party's plan. ■

## 2014 IN BRIEF

Beijing lays out the red carpet as it hosts the annual 21-country APEC summit

## A tale of two towers

Vijay Vaitheeswaran SHANGHAI

Two radically different ways to reach for the sky

China has a love affair with the skyscraper: five of the ten highest in the world are under construction in the Middle Kingdom. Two particularly prominent ones are scheduled to be finished in 2014. One, Shanghai Tower, would be China's tallest building. Another, Sky City, an ambitious project in the interior city of Changsha, would leapfrog it to become the tallest in the world—if it is ever finished. The philosophies, technologies, timelines and business models involved in constructing Shanghai Tower and Sky City could not be more different. Together, they present a picture of the varied ways that innovation happens in China.

"I'm a guy who likes to be second in, not first," declares Arthur Gensler. That may not sound sensational, but it works. Gensler, the architectural firm he co-founded in 1965, is now one of the world's largest. It is also the driving force behind the public-private consortium building Shanghai Tower.

The tower will boast an array of small but useful features. Every ten or 15 storeys the architects have created a common space. Filled with shops and mingling areas, these are meant to build a sense of community. But they also enhance safety, as refuge floors under these lobbies can serve as safe harbours, thanks to fire-separation technology. Lifts designed to keep out smoke will, the architects hope, be safe to use in the event of a fire.

The building also expands the use of green techniques, from renewable

energy to sky gardens. This is not the first building to feature a double skin or a twisted design, but it is the first to use them on a vast scale. The twist cuts the wind load by nearly a quarter, and so reduces the quantity of steel and concrete needed. Every step of the project has been vetted by outside experts, sometimes resulting in extensive (and costly) redesigns.

### The tortoise and the hare

If the Shanghai Tower takes China's tested path of incremental enhancements, Sky City represents the opposite. It hopes to take a great leap forward by harnessing China's prowess at fast and frugal engi-

neering and business-model reinvention.

Broad Group, the firm behind this effort, made its name building air-conditioning systems. But it has also developed novel prefabrication techniques that have allowed it to erect tallish buildings quickly. In January 2012 it put up a 30-storey hotel in just 15 days. The time-lapse footage of that feat has been viewed on YouTube millions of times.

Now Zhang Yue, the billionaire behind Broad, says he plans to erect Sky City in four months. If it reaches the planned 838 metres it will be ten metres taller than Dubai's Burj Khalifa, at present the world's tallest building. He claims his project is financed without government support. The first 15 floors of the 202-storey building will have offices, a school and a hospital, and the top floors a hotel, but most of the tower will be residential.

Questions abound. Broad first broke ground on the site in July 2013, but regulatory uncertainty soon halted work. Will regulators allow Broad to complete the project? Can huge modules be lifted quickly and safely to such heights? Will the public believe the building to be safe?

Mr Zhang seems to understand that the risk of failure is part of innovation. He says "factory architecture", as he calls his approach, involves scary breakthroughs. Even if they fail, he suggests, his firm's bold efforts "deserve sympathy".

For Mr Gensler, failure is not an option. The Shanghai Tower project "is not going to fail because it is made up of incremental, not breakthrough, innovations," he insists. "Like the pyramids, this building is going to be around for ever." ■

Vijay Vaitheeswaran: China business and finance editor, *The Economist*

### Tall story

The world's highest buildings in 2014



Sources: Broad Group; Emporis; Gensler; Port Authority of New York and New Jersey

\*Forecast

## The warring-provinces period

Simon Cox *HONG KONG*

Beijing will treat the indebted provinces much as Berlin treats the euro's indebted periphery

### 2014 IN BRIEF

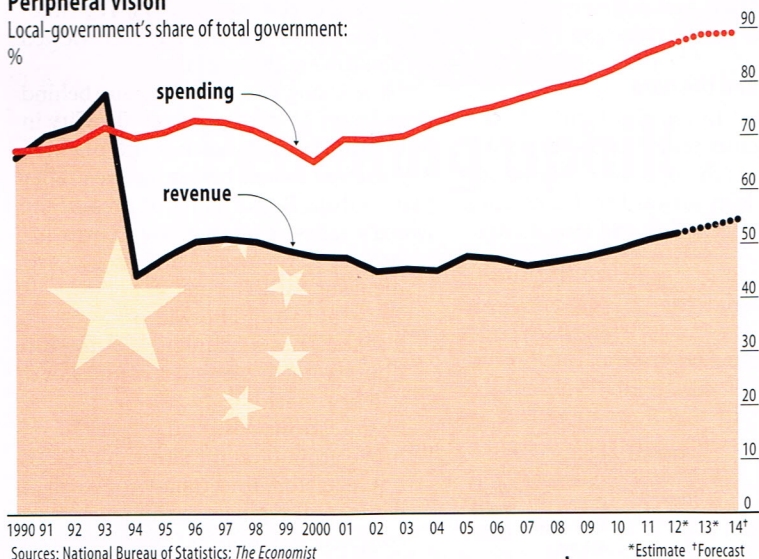
Australia's new prime minister, Tony Abbott, makes an official visit with a focus on trade

The year 2014 marks the 20th anniversary of one of China's most significant, yet least heralded, reforms. Twenty years ago a root-and-branch overhaul of the country's tax system reasserted Beijing's fiscal supremacy over the provinces. Now, with local governments neck-deep in debt, the fiscal balance of power between the centre and the provinces needs renegotiating again. In 2014 China will make a start.

If fiscal reform sounds like a recipe for a dull year, think again. China's provinces are huge: four of them have more than 80m people each. Their governments do not just fix streetlights and fill pot-holes. Within the outlines of China's five-year plans, they shape the growth strategy

### Peripheral vision

Local-government's share of total government: %



Sources: National Bureau of Statistics; *The Economist*

\*Estimate †Forecast

of big chunks of the country. Their competition with each other is often wasteful: they duplicate efforts, poach investors and sew ugly stitches into what should be a seamless national market. But this rivalry is also a source of economic dynamism. Whatever you think of China's local leaders—and some people accuse them of land-grabbing growth fetishism—they are not sleepy.

In the early 1990s these provincial barons were slowly taking over the show. Under the fiscal rules of the time, local governments collected all of China's taxes and then passed a portion up to the central government in Beijing. They did not always pass on their fair share, resorting instead to tricks like relabelling taxes as "fees", which they were allowed to keep for themselves. Fiscal revenues dropped as a share of GDP and the central government's cut of those revenues dwindled as a share of the total. The country's various levels of government "ate at separate kitchens", as the Chinese put it, with the

provincial governments feasting on what they procured locally, then throwing a bone to Beijing.

In 1994 the central government decided to cook for itself. It collected its own "central" taxes, leaving a handful of other taxes for the provinces to gather for themselves. Revenues poured into the central government's coffers. It became a model of fiscal conservatism, running up debt worth only 22% of GDP at the end of 2012.

But the provinces were left in a pickle. They had to build most of the country's infrastructure and provide most of its public services with only a fraction of its fiscal revenues (see chart). They filled the gap by borrowing—often not in their own name but via "local-government financing vehicles" (LGFVs).

These vehicles, which include road-construction companies and the like, now number over 10,000. In 2009 and 2010 they borrowed heavily from China's banks. After the bank regulator intervened, they borrowed from lightly regulated trust companies and the bond market. After the government tightened its grip, the vehicles turned to securities firms, fund-management companies and insurers. As each kitchen closed, the LGFVs foraged in spicier foodstalls elsewhere.

China's national auditor has been trying to count all this borrowing. Reports suggest the total could have been over 20 trillion yuan (\$3.2 trillion) at the end of 2012, equivalent to more than a third of GDP. This stock taking exercise could set the stage for an overhaul of China's fiscal apparatus, beginning in 2014.

### Hazard warning

The cleanest solution would be for the centre to shoulder some of these debts itself. Since Beijing would not allow a disorderly default, it is ultimately on the hook anyway. The central government is also to blame for some of the red ink, having urged local governments to help stimulate the economy after the 2008 financial crisis. But it is wary of letting the provinces escape so easily. Those rescued from the consequences of irresponsible borrowing might repeat it.

Thus, Beijing is keeping local governments in suspense about the chances and form of any rescue. In the meantime, it is urging them to cope on their own. They will be allowed to wander closer to the threshold of insolvency, without being allowed to cross it—much like the countries on the euro area's indebted periphery.

But, in keeping the provinces guessing, Beijing will keep everyone else in the dark too. The spectre of unpayable local-government debt has haunted investors in China for the past three years, souring the mood. Efforts to curb moral hazard can pose hazards of their own. ■

**Beijing is keeping local governments in suspense**

### Just possibly...

In his desire to be seen fighting corruption, **Xi Jinping** goes after a lesser member of his own family.

China indicates that it wants to join the **Trans-Pacific Partnership** trade club.

**Liu Xiaobo**, an imprisoned Nobel peace laureate, is offered his freedom—so long as he leaves the country.