

By Tom Hancock in Hainan and  
Gabriel Wildau in Shanghai

Ocean Flower Island is a vision of luxury, Chinese-style. A man-made archipelago off the coast of the tropical island of Hainan in the South China Sea, it will boast thousands of apartments, 28 museums and 58 hotels including one which is “7-star level” and another shaped like a European castle.

Gold-painted Mercedes golf carts whisk potential customers to the sales center for the project, where Chinese developer Evergrande Real Estate is leading construction. Inside the center, Mr Yu, a 56-year-old owner of a building company who asked not to use his full name, wears a shirt emblazoned with the words “Beverly Hills Polo” and sips green tea. He is keen to buy a 108 square meter apartment on one of the islands, adding to his eight properties elsewhere. “The house will definitely increase in value,” he says.

As China’s Communist party elite gather in Beijing to select its top leaders, President Xi Jinping has benefited from the strong recent performance of the economy, which is poised for its first year-on-year acceleration in growth since 2010. Yesterday Beijing reported that gross domestic product grew 6.8 per cent in the third quarter, ahead of its full-year target.

That rebound owes much to the confidence of homebuyers like Mr Yu and to projects like Ocean Flower Island. Housing prices and construction starts rebounded from a slump in 2014-15, boosting overall business investment and driving demand for output from China’s huge manufacturing sector.

The property sector has been given a helping hand. Urged on by Beijing, 38 per cent of all bank loans issued in the 12 months to August were home mortgages, according to official data, and local governments purchased 18 per cent of all residential floor space sold last year as part of a drive to provide affordable housing, according to estimates by E-House China Research Institute. The result has been another heady boom in construction. Rome was not built in a day, but based on residential floor area completed last year, China built the equivalent of a new Rome about every six weeks.

With the surge in housing investment has come a round of questions about a potential bubble in the market and the implications for the long-term health of China’s economy.

Some economists and investors warn that short-term growth from the latest housing boom has come at a cost: inflating a property bubble whose eventual bursting will inflict great pain. A senior Chinese legislator recently warned in unusually blunt terms that the economy has been “kidnapped” by property.

“The government keeps this mar-

# China - Building demand



A Chinese man rides a bicycle past a construction site near the Olympic Park in Beijing

ket going. Last year, they needed to jump-start property so the economy would be in good shape for the party congress,” says Andy Xie, an independent economist and asset manager who has warned about a property bubble. “In the short term it works, but only if people believe the government will protect them.”

But others insist that fears of a bubble are overstated. On this view, economic fundamentals justify substantial investment in housing, especially in inland cities where development still lags far behind wealthy coastal areas. These more sanguine observers also note that outrageous price levels for Chinese apartments are mainly restricted to the megacities like Beijing and Shanghai. Smart people, wrong predictions

Despite its importance, China’s real estate market has proved to be tricky for foreign investors and experts to grasp. Dire prophecies of a housing bubble have been a staple of economic punditry for at least a decade. In 2010, billionaire short-seller James Chanos called China’s property market “Dubai times 1,000”. But apart from a few

cities, the market has experienced only mild corrections.

The stakes in this debate are high. Chinese residential property is arguably the world’s most important asset market. The sector drives global commodity prices, making the difference between growth and stagnation for resource exporters like Australia and Brazil.

For China’s domestic economy, the world’s largest at purchasing-power parity, property investment directly contributed 10 per cent to GDP in 2016. When man-

**With the surge in housing investment has come a round of questions about a potential bubble in the market**

ufacturing sectors like steel, cement and glass and retail sectors like furniture and home appliances are included, the share is at least 20 per cent. The health of China’s banking system, now the world’s largest by assets, is also deeply tied to the fate of the property sector.

Developments such as Ocean Flower Island are used on both sides of the debate. To some, it typifies the excesses of the market, which they say feeds on speculative demand in an already oversupplied sector. Evergrande is one of China’s most indebted developers. However, the company has so far defied the sceptics. Short-sellers betting against Evergrande’s stock in Hong Kong this year were trounced, as the group’s share price has risen sixfold this year. Evergrande chairman Xu Jiayin this year became China’s wealthiest man, according to the Hurun rich list.

“It’s never wrong to express worry over China’s housing market,” says Larry Hu, China economist for Macquarie Securities in Hong Kong. “But it’s interesting to consider why the housing sector has

become the Bermuda Triangle for economic forecasters. So many smart people have made wrong predictions about it.”

The leading claim of the housing bears is that after a 15-year construction boom, China has built most of the housing it needs to meet fundamental demand. On this view, investors speculating on price gains, not families seeking shelter, now drive the market.

“People buy property not because they like the property, but because the price is rising,” says Ning Zhu, professor at the Shanghai Advanced Institute of Finance and author of China’s Guaranteed Bubble. “It’s this panic that if they don’t buy now they will never be able to afford it.”

Central to this narrative is the notion of “ghost cities” - huge blocks of empty apartments where expected demand never materialized. The most extreme example is Ordos in Inner Mongolia, where hundreds of high-rise buildings lay vacant for years but are now slowly filling out. In the mid-2000s, rising coal prices fuelled a building boom, but when growth slowed and coal prices



## China - Building demand (continued)



A worker walks past a billboard stating "Welcome the 19th Party Congress, create new glories" outside of a construction site in Beijing

es slumped, the city experienced a crisis. In commercial real estate, Tianjin's Yujiaopu skyscraper district, billed as the "Wall Street of North China", remains largely empty.

In Mr Xi's speech at the opening of the congress on Wednesday, he repeated his mantra that "houses are for living in, not for speculation". Yet even in major cities, evidence suggests that there are a substantial number of empty flats held for investment purposes. A survey by FT Confidential Research, a research service owned by the Financial Times, found that 32 per cent of families own at least one home that is vacant.

An estimated 50m homes, or 22 per cent of the total urban hous-

ing stock, were vacant in 2013, according to the most recent data from the China Household Finance Survey led by Li Gan, economics professor at Texas A&M University.

"When you look at the relationship between demand for housing and demand for fridges and other items, it really broke down in the last couple of years. So I would say that it is investment demand," says Diana Choyleva, chief economist at Enodo Economics, a London-based independent research company focused on China.

Prominent business leaders have also expressed concerns about a bubble. Levin Zhu, son of former premier Zhu Rongji and one-time chief executive of investment bank

China International Capital Corp, believes all new residential building is essentially oversupply.

"According to the statistics bureau, if you add each year's numbers together, China's current total housing capacity can supply 1bn people at an average rate of 30 square meters per person. Counting even people living in small towns, China has only 700m urban dwellers. That means there is a 300m over-capacity," he said in June.

Further underpinning the bearish outlook is the belief that fundamental demand for new housing is drying up.

The transformation of China's economy over the past 40 years was driven by the migration of

farmers into cities. That urbanization process is now slowing as relatively few young people remain in rural China. The number of migrant workers living outside their home province rose by 12m in the five years to June this year, compared with an increase of 26m in the five years ending June 2012, according to official data.

Says Mr Xie: "If you go into villages, there are no young and middle-aged people any more. Where is this next wave of urbanization supposed to come from?"

To longtime observers of China's economy, the current hand-wringing over the property market feels familiar. After two years of falling prices and sluggish sales, analysts were warning in early 2016 that some smaller cities had enough unsold inventory to last for years.

Yet by August this year, inventories in the 80 cities tracked by E-House China Research Institute stood at their lowest level in almost five years.

"A year ago, my view was that many smaller cities just had to absorb sunk costs. A year later it's a totally different story," says Shuang Ding, head of greater China economic research at Standard Chartered in Hong Kong.

Looking ahead, Mr Ding believes that fundamental demand can support the construction of about 6 billion square meters of housing through to 2021, implying growth of about 5 per cent a year in residential property. That would be far below the boom years of the mid-2000s, when overall property investment grew 25 per cent a year

on average, but it would still set a floor under growth that will put Mr Xi and the new politburo at ease.

Perceptions of unreasonably high housing prices appear to be disproportionately influenced by trends in first-tier cities - Beijing, Shanghai and Shenzhen. All three rank among the world's most expensive in terms of price-to-income ratio.

Of the 70 cities in the official price survey, however, 12 have seen outright price falls in the three years through to August this year. In a further 29 cities, prices rose by less than 10 per cent in the same period. Meanwhile, median per capital disposable income has grown 28 per cent in roughly the same period.

**“ People buy property not because they like the property, but because the price is rising.**

NING ZHU  
SCHOLAR

Despite major concerns about Chinese corporate debt, household borrowing remains low by international standards at 37 per cent of gross domestic product, compared with 79 per cent in the US and 59 per cent in the euro area, according to the Bank for International Settlements. And Chinese homebuyers use less debt and more equity than counterparts in the US. The average downpayment on Chinese home mortgages extended in 2016 was 40 per cent.

Despite their differences, both sides in the debate mostly agree that an outright crash of the housing market is unlikely. Chinese savers have few options for investing their money. The stock market is volatile, returns on bank deposits are meager and foreign exchange controls largely prevent households from buying foreign assets. Housing is the least bad option for many investors.

The combination of capital controls with years of monetary stimulus virtually ensures that "trapped cash" will slosh through different asset classes, creating bubble-like conditions that the government either encourages or struggles to contain.

Still, given the pain that would result from an abrupt policy shift, analysts widely expect that Beijing will continue the current approach, tightening controls when the market gets too hot, while priming it with cash when it slows too sharply. "The government is really losing its credibility," says Mr Ning. "At this point everyone realizes they don't really intend to crack down on the housing market."

Copyright The Financial Times  
Limited 2017

## PROVINCIAL METROPOLISES

## Workers to drive demand in reverse migration

Migrants remain key to the next phase of urbanization, but not in the same way as the previous two decades.

Rosealea Yao, investment analyst at Gavekal Dragonomics, a Beijing-based research company, sees significant demand from the 282m migrant workers who are already counted as urban residents but who live packed together, without their families, in shabby rental housing or worksite dormitories.

"There are still a lot of people moving into cities, not just from rural areas but also from where they used to work in coastal cities back to their hometown provinces in central China," she says.

Ms Yao cites huge factories that Foxconn, which makes Apple iPhones, has built in inland provinces. Once provincial backwaters that exported migrants, the rapid development of regional capitals like Zhengzhou in Henan has made reverse migration viable at scale.

Chengdu, the capital of Sichuan province, hosts offices for 400 of the global Fortune 500 companies, she says.

"These regional hubs will grow very big over the next five to 10 years, helped by improved infrastructure," says Ms Yao.

Andy Rothman, investment strategist at fund manager Matthews Asia, says many discussions of ghost cities misunderstand the market. About 80 per cent of flats are sold before construction is complete, with many developments being built far from the traditional downtown areas.

That means homebuyers may delay moving in until infrastructure like schools and subway lines are completed, making new developments appear ghostly. He notes that the new Zhengdong district in Zhengzhou, which was widely declared as a ghost city a few years ago, is now bustling.



By Foster Klug, Beijing

**A**T first glance, it seems the perfect solution to the world's most dangerous standoff: Find a way to get China to use its enormous influence to force North Korea to abandon its nuclear bombs.

The countries, after all, share a long, porous border, several millennia of history and deep ideological roots. Tens, and possibly hundreds, of thousands of Chinese soldiers, including Mao Zedong's son, died to save North Korea from obliteration during the Korean War, and China is essentially Pyongyang's economic lifeline, responsible for most of its trade and oil.

The notion of Chinese power over the North — that the countries are as “close as lips and teeth,” according to a cliché recorded in the 3rd century — is so tantalizing that Donald Trump has spent a good part of his young presidency playing it up.

The reality, however, is that the complicated, often exasperating, relationship is less about friendship or political bonds than a deep and mutually uneasy dependency. Nominally allies, the neighbors operate in a near constant state of tension, a mix of ancient distrust and dislike and the grating knowledge that they are inextricably tangled up with each other, however much they might chafe against it.

This matters because if China is not the solution to the nuclear crisis, then outsiders long sold on the idea must recalibrate their efforts as North Korea approaches a viable arsenal of nuclear-tipped missiles capable of reaching the U.S. mainland, something the CIA chief this week estimated as only a matter of months away.

“The North Koreans have always driven China crazy,” says John Delury, an expert on both countries at Seoul's Yonsei University, “and, for their part, the North Koreans have always felt betrayed by China. But both sides need each other in elemental ways.”

#### THE VIEW FROM CHINA: ‘KIM FATTY’

One clue about how Chinese see the North can be seen in two widespread nicknames for the overweight, third-generation North Korean leader, Kim Jong Un: Kim Fatty The Third and Kim Fat Fat Fat.

As China rises as an economic, military and diplomatic heavyweight whose reach extends from the Americas to Asia, many here resent being dragged down by an impoverished, stubborn, Third World dictatorship that allows its people to go hungry while its

AP PHOTO



Visitors walk across the Yalu River Broken Bridge (right) next to the Friendship Bridge connecting China and North Korea in Dandong

# Chinese power over North Korea? It's more myth than reality

leader lives in luxury and expands a nuclear arsenal that could lead to war with Washington.

North Korean missile tests hurt trade and tourism and strengthen the U.S. presence in a region that China believes it should dominate. North Korean nuclear tests set off earthquakes near the Chinese border and raise fears of radioactive contamination.

There's also scorn for the North's brutal, nepotistic brand of socialism, and displeasure that North Korean aggression led South Korea to allow on its territory a U.S. anti-missile system that Beijing says can be used to spy on its operations.

This growing disdain is reflected in China's willingness to permit criticism of the North in the press, and to allow tougher sanctions at the U.N. Beijing has suspended coal, iron ore, seafood and textiles from the North.

Although North Korea takes pride in its ability to absorb pain, be it war, famine, sanctions or condemnation, China's tougher line will rob Pyongyang of key sources of foreign currency.

Still, nothing China has done offsets its underlying fear that too much external pressure could collapse the government in Pyongyang. The nightmare scenario for Beijing is North

Korean refugees flooding into its northeast after Seoul takes power in Pyongyang and U.S. and South Korean troops occupy lands that were once considered a buffer zone.

“It is true that China loathes North Korea and vice versa — at the societal level, the leadership level and the governmental level,” Van Jackson, a North Korea specialist and lecturer at Victoria University of Wellington in New Zealand, wrote earlier this year. “But China's ‘emotions’ toward North Korea don't drive its policy.”

Beijing has also argued that it has less power over North Korea than people think. Some observers question whether China could force a change in the North, short of military intervention, even if it wanted to.

North Korea relies on China for most of its oil, and outsiders have long argued that the best way to cripple the North's economy and force it to submit would be to persuade Beijing to cut that flow.

But even this may not work.

North Korea gets its oil from China out of convenience, not necessity, according to Pierre Noel, an energy security specialist at the International Institute for Strategic Studies think tank.

“Would it be good news for North Korea if the oil stopped flowing? No. Is it likely to cripple the economy and force

the government to change course on their foremost strategic priority? No. There are ample hydrocarbons in North Korea to substitute for those it imports from China.”

#### THE VIEW FROM N. KOREA: ‘PROFOUND MISTRUST’

One way to gauge Pyongyang's feelings for Beijing is to consider that Kim Jong Un has yet to visit his only major ally, a country that accounts for 90 percent of North Korean trade, since taking power in December 2011.

His late father, Kim Jong Il, hated to travel but went to China eight times during his rule, and Chinese leaders reciprocated with trips to Pyongyang.

Since communication at the highest levels has now virtually disappeared, Kim Jong Un feels little need to pay attention when Beijing calls on him to stop testing nukes and missiles.

In fact, North Korea has seemingly sought to humiliate Beijing by timing some of its missile tests for major global summits in China.

Last month, North Korean state media accused Chinese state-controlled media of “going under the armpit of the U.S.” by criticizing Pyongyang. In May, the North vowed to “never beg for the maintenance of friendship with China [or risk North Korea's] nuclear

program which is as precious as its own life, no matter how valuable the friendship is.”

It can be argued that the North Korea-China relationship never really recovered from Beijing's decision in 1992 to establish formal diplomatic relations with Seoul.

But a big part of North Korea's “profound sense of mistrust” and “long-term effort to resist China's influence” stems from the 1950-53 Korean War, according to James Person, a Korea expert at the Wilson Center think tank in Washington. The war is often seen as the backbone of the countries' alliance, he said, but the North blamed the failure to conquer the South on Beijing, which had seized control of field operations after the near-annihilation of North Korean forces.

In the 1970s, with North Korea pushing the United States for a peace treaty to replace the Korean War cease-fire that continues today, Washington chose to work through China.

By so doing, U.S. officials failed to see the limits of Chinese influence in the North, Person wrote last month on the 38 North website.

“Yet, nearly four decades later, asking China to solve the North Korean problem remains Washington's default policy for dealing with Pyongyang.” This, he said, is “a recipe for continued failure.” **AP**



# Study: Pollution kills 9 million a year, costs USD4.6 trillion

By Katy Daigle, New Delhi

**ENVIRONMENTAL** pollution — from filthy air to contaminated water — is killing more people every year than all war and violence in the world. More than smoking, hunger or natural disasters. More than AIDS, tuberculosis and malaria combined.

One out of every six premature deaths in the world in 2015 — about 9 million — could be attributed to disease from toxic exposure, according to a major study released Thursday in the Lancet medical journal. The financial cost from pollution-related death, sickness and welfare is equally massive, the report says, costing some USD4.6 trillion in annual losses — or about 6.2 percent of the global economy.

“There’s been a lot of study of pollution, but it’s never received the resources or level of attention as, say, AIDS or climate change,” said epidemiologist Philip Landrigan, dean of global health at the Icahn School of Medicine at Mount Sinai, New York, and the lead author of the report.

The report marks the first attempt to pull together data on disease and death caused by all forms of pollution combined.



Visitors to a park gesture at each other near chimneys spewing smoke in Beijing

“Pollution is a massive problem that people aren’t seeing because they’re looking at scattered bits of it,” Landrigan said.

Experts say the 9 million premature deaths the study found was just a partial estimate, and the number of people killed by pollution is undoubtedly higher and will be quantified once more research is done and new methods of assessing harmful impacts are developed.

ped.

Areas like Sub-Saharan Africa have yet to even set up air pollution monitoring systems. Soil pollution has received scant attention. And there are still plenty of potential toxins still being ignored, with less than half of the 5,000 new chemicals widely dispersed throughout the environment since 1950 having been tested for safety or toxicity.

“In the West, we got the lead out of the gasoline, so we thought lead was handled. We got rid of the burning rivers, cleaned up the worst of the toxic sites. And then all of those discussions went into the background” just as industry began booming in developing nations, said Richard Fuller, head of the global toxic watchdog Pure Earth and one of the 47 scientists, policy makers and public health

experts who contributed to the 51-page report.

“To some extent these countries look to the West for examples and discussion, and we’d dropped it,” Fuller said.

Asia and Africa are the regions putting the most people at risk, the study found, while India tops the list of individual countries.

One out of every four premature deaths in India in 2015, or some 2.5 million, was attributed to pollution. China’s environment was the second deadliest, with more than 1.8 million premature deaths, or one in five, blamed on pollution-related illness, the study found.

Several other countries such as Bangladesh, Pakistan, North Korea, South Sudan and Haiti also see nearly a fifth of their premature deaths caused by pollution.

In wealthier countries where overall pollution is not as rampant, it is still the poorest communities that are more often exposed, the report says.

“What people don’t realize is that pollution does damage to economies. People who are sick or dead cannot contribute to the economy. They need to be looked after” — which is also costly, Fuller said.

Some experts cautioned, however, that the report’s economic message was murky. Reducing the pollution quantified in the report might impact production, and so would not likely translate into gains equal to the \$4.6 trillion in economic losses. **AP**

## ASK THE VET

by Dr Ruan Du Toit Bester



### AN INTRODUCTION TO CANINE SPAY SURGERY

**SPAY** surgery, also called ovariectomy (OHE), involves removing your dog’s ovaries, fallopian tubes and uterus so that she cannot become pregnant. Though the procedure is major abdominal surgery, it is very common and rarely causes complications. Many veterinarians believe that the advantages of spaying your dog far outweigh the disadvantages. Understanding the procedure beforehand will help you to make an informed decision whether to spay your dog, as well as to better care for your dog afterward.

#### Spaying eliminates unwanted aspects of heat cycle

If you do not want to breed your dog, spay surgery will prevent the following inevitabilities of her heat cycle:

- Bloody discharge with bad odor
- Attention of males wanting to mate
- Pregnancy and associated risks

#### Spaying prevents growth and spread of female cancers

The ovaries produce estrogen, which spurs the growth and spread of uterine, ovary and mammary cancers. Essentially, spaying prevents these types of cancer by halting the production of estrogen through removal of the female organs. Spaying before the first heat cycle reduces to near zero the risk of your dog developing mammary cancer later

in life. Spaying your dog beyond her second heat will still offer her significant protection against this common and devastating disease. Finally, spaying can inhibit the growth and spread of tumors in dogs already diagnosed with mammary cancer.

#### Spaying prevents life-threatening uterine infections

Un-spayed dogs in middle age and beyond do not experience anything analogous to human menopause. As a result, they will, with near certainty, develop pyometra, a serious uterine infection. Pyometra occurs during the heat cycle when bacteria in the vagina invade the uterus, causing it to swell with toxic pus and tissue. Spaying is mandatory to save a dog’s life at this point. These symptoms signal pyometra:

- Loss of appetite
- Fatigue
- Vomiting
- Excessive thirst
- Vaginal discharge

#### Step-by-step guide to spay surgery

Here is what your dog will experience during conventional spay surgery:

- Your dog fasts at least eight hours prior to surgery.
- Blood work is done.
- An intravenous catheter is inserted in your dog’s leg for the administration of



anesthesia.

- Your dog receives a tranquilizer intravenously to make subsequent administration of anesthesia easier.
- A tube is inserted in your dog’s throat to maintain a clear airway during surgery.
- Anesthesia is administered through the tube, which is connected to a monitoring machine.
- Your dog’s abdomen is shaved and cleaned.
- Your dog’s bladder is drained.
- The surgical site is indicated by clothing or paper draped over your dog’s abdomen.
- Your vet makes an incision and removes the ovaries, fallopian tubes and womb.
- Your vet stitches the incision closed.
- Your dog is kept in recovery until able to walk.

Your vet will give you complete instructions in caring for your dog after spay surgery. At home, your dog may experience mild pain, nausea and loss of appetite. Provide your dog with a quiet place to recover and limit your dog’s physical exertion to allow the incision to close properly. Request an Elizabethan collar if your dog licks her stitches or

surgery site. Notify your vet if a fluid pocket at the incision site forms and begins to drain.

#### Why laser spay surgery is becoming more popular

Your vet may perform spay surgery using laser beams rather than a scalpel to make incisions. Veterinarians who prefer this type of surgery report that it causes less damage to tissue, resulting in less pain, bleeding and incidence of infection. Moreover, lasers repair nerve endings during surgery, reducing the amount of anesthesia and post-operative pain medication necessary. Ask your vet about the availability and comparative costs of laser spay surgery if they have it.

Hope this info helps  
Till next week  
Dr Ruan

**Ask the Vet:**  
**Royal Veterinary Centre**  
**Tel:** +853 28501099, +853 28523678  
**Emergency:** +853 62662268  
**Email:** royalveterinary@gmail.com