

BACK TO BUSINESS



Porsche plans to triple the number of dealers on the mainland to about 100 from 33 by 2018 at the latest.

China drives Porsche record

With sales booming, the mainland is on track to overtake the US as the luxury German carmaker's largest market in 2014

Bloomberg in Shanghai

Liu Yirong walked into Porsche SE's Shanghai dealership planning to buy the carmaker's US\$137,000 Cayenne sport-utility vehicle.

"I wanted a Cayenne but there weren't any available," said the 32-year-old Liu, who works in the chemical industry.

Chinese customers ordering a Cayenne with a 3.0-litre engine wait an average of 15 months for delivery, the longest for the vehicle globally.

Porsche forecasts record 2011 deliveries globally as China sales grow 35 per cent, putting it on track to overtake the US as its largest market in 2014.

Porsche, BMW and Daimler's Mercedes-Benz all posted fourth-month sales increases in China exceeding 30 per cent as more wealthy Chinese seek out German luxury cars

as status symbols. The gains are outpacing a slowing overall market, which advanced 8.1 per cent in the first quarter, the weakest in two years.

"Chinese consumers are becoming increasingly brand-savvy and Porsche is a very potent brand," said Tim Urquhart, a senior analyst at industry consultant IHS Automotive in London.

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Porsche, which is in the process of merging with Volkswagen AG, said last month first-quarter operating profit more than doubled to €496 million (HK\$5.42 billion) on demand for the Cayenne, its best-selling model.



Vintage Porsche SE models on display in Beijing.

We found a lot of customers enjoyed a higher ride in the streets of Beijing and Shanghai

HELMUT BROEGER, PORSCHE'S HEAD OF CHINA ON THE SUCCESS OF THE CAYENNE

It also spent four days transporting its Boxster, Carrera and 911 models to a frozen lake in Inner Mongolia in March to allow buyers to test drive them on snow.

The added attention will help lift China to about a quarter of Porsche's deliveries in 2014, up from 15 per cent now, Broecker said.

"The Cayenne came in 2003 when the market was just taking off," Broecker said. "It was the right product at the right time. We also found a lot of customers enjoyed a higher ride in the car in the busy streets of Beijing and Shanghai because you have a much better view of the traffic situation."

The 3.0-litre engine used in the

Chinese model is in short supply because the factory that makes the motor, which is used as well in other Volkswagen group SUVs sold in China, can't keep up with the demand.

Porsche plans to triple its dealer network in China to about 100 from 33 by 2018 at the latest. The carmaker will inaugurate 10 dealerships a year, with openings in smaller cities such as Ordos in Inner Mongolia, and Haikou on Hainan Island in 2011.

Luxury-car sales in China will rise 20 per cent this year after surging 48 per cent to 459,000 vehicles last year, according to industry researcher JD Power & Associates.

Porsche, maker of the 911 sports car and four-door Panamera, may consider producing a planned small SUV called the Cajun in China in the future.

"You need 25,000 cars of one model alone to make it a viable business case," Broecker said.

The Cayenne's popularity may also have a negative impact if the carmaker doesn't shorten waiting times. Tony Tian and his three business partners dropped by a dealership along Shanghai's busy Nanjing Street in search of a company car.

"It's a powerful car and the exterior looks very professional," said Tian, who spent about 20 minutes checking out the yellow Cayenne on display in the store.

His donation included four cases each of 2002 Masseto, 1999 St Emilion Barde Haut, 1999 Jean Bouillot Volnay Fremiets, 1999 Niellon Chassagne Montrachet Truffieres, and 1999 Marc Colin Chassagne Montrachet Caillerets.

MONITOR TOM HOLLAND

What's so great about rapid economic growth anyway?

China's development could be advanced considerably if the government and the people abandoned their unhealthy fixation on the rise of gross domestic product

I am not a fan of the New Yorker magazine. I find the articles ponderous and parochial; the little cartoons crashingly unfunny.

For the princely sum of 14,500 yuan (HK\$16,800), the magazine's Beijing correspondent joined 30 or so mainlanders for a gruelling 10-day, five-country coach tour of Europe.

Watching cultures collide - even at second hand - is always illuminating. No doubt the speed at which the tourists swept past the architectural and artistic glories of Paris, pausing only to snap the obligatory photographic record of their presence before heading off for an orgy of handbag shopping, would have raised some supercilious French eyebrows.

But equally, for their part the visitors were taken aback by the leisurely pace of life in Europe, where the locals linger over coffee, prohibit bus drivers from working more than 12 hours a day, and even stop their cars for pedestrians.

"With a pace like that, how can their economies keep growing?" the Chinese guide asks. "Only when you have diligent, hardworking people will the nation's economy grow."

It's a theme that recurred constantly as the group tore around Europe, with the visitors marvelling at the willingness of French workers to go on strike, and at how many years the Italians take to build a new highway.

"That's the only way to keep the economy growing." What's remarkable here is not that the Chinese tourists found Europe slow-moving - Americans have been saying the same for decades - but that their automatic assumption that fast growth is the best, indeed the only, measure of a country's economic success.

That begs the question: what's so great about rapid growth anyway? That might sound like a dumb thing to ask, but the more you think about it, the more the question makes sense.

The growth our tourists were talking about was in gross domestic product (GDP), which measures the final value of all goods and services produced by an economy.

GDP was developed in the US during the Great Depression, and came into its own during the second world war as a measure of how many guns, ships and planes the US economy was able to produce.

But GDP measures quantity, not quality. In other words, although it says a great deal about how much stuff you can churn out, it tells you very little about the state of your economic development.

For example, GDP counts all investment as positive, whether or not that investment turns out to be productive in the longer run.

All production is regarded as positive, even if pollution reduces agricultural output and pushes up health care costs

So if a country pours resources into building pyramids, its GDP will rise sharply while they are under construction. But considering that pyramids, once complete, add nothing to the economy (except maybe generating tourist revenues four millennia later), it is difficult to claim that their construction furthers economic progress.

This consideration is especially important for China. Although the country's leaders aren't building pyramids, they may be doing the modern equivalent: building hundreds of expensive airports, high-speed rail lines and glittering financial centres that can never hope to generate a return on the

investment involved. These projects add to GDP growth in the short term but do nothing to advance economic development.

Similarly, GDP fails to account for the costs of environmental damage. All production is regarded as positive, even if the pollution it causes reduces the productive capacity of the agricultural sector and pushes up health care costs.

Again, this is important for China. A few years ago, the State Environmental Protection Administration did try to factor pollution costs into the country's GDP figures. But when it found that including environmental costs would have reduced growth by at least a third, the attempt was quickly discontinued.

And as our travellers' comments show, their message resonates strongly with China's people, or at least those rich enough to take package tours round Europe.

But unfortunately the GDP measure by which both China's government and its travelling classes set such store is a deeply flawed measure of true economic progress.

As Simon Kuznets, the US economist who originally developed the idea of gross domestic product, warned: "Distinctions must be kept in mind between quantity and quality of growth, between its costs and return, and between the short and the long run. Goals for more growth should specify more growth of what, and for what."

It's a message China and its leaders would do well to heed. That's not to say China should immediately embrace a European lifestyle - heaven forbid - but it does mean that the country's economic development could be advanced considerably if only its government and people were to abandon their unhealthy fixation on the rapid growth of GDP.

LAI SEE HOWARD WINN

When it comes to fine wines, Henry Tang shows he can deliver. Some, but by no means all, of the journalists that drank the wine at the annual Hong Kong Journalists Association's ball recently were struck by its unusually high quality.

This was no ordinary vintage. The reason for this emerged during the course of the dinner when it was revealed that the wine had been donated by Henry Tang Ying-yen who, in addition to being Hong Kong's chief secretary is well known for his discernment when it comes to wine.

His donation included four cases each of 2002 Masseto, 1999 St Emilion Barde Haut, 1999 Jean Bouillot Volnay Fremiets, 1999 Niellon Chassagne Montrachet Truffieres, and 1999 Marc Colin Chassagne Montrachet Caillerets.

But then you wouldn't expect Henry to serve up anything but the best, at least when it comes to wine.

But should the HKJA be soliciting wine from Henry, particularly since his relationship with the press is, to say the least, adversarial? Mak Ying-tung, chairman of the HKJA, says the organisation uses the event to raise funds to fight for press freedom. The association gets donations from a wide variety of sources in Hong Kong, including property developers, politicians and the entertainment industry.

"But this does not mean we will compromise our coverage of their activities," she told Lai See. We'll drink to that.

Ronnie Chan back on form. We understand that Ronnie Chan Chi-tung, chairman of the Hang Lung Group, was on form at a venture capitalist lunch he presided over yesterday. That is, he was exuding his usual wit and wisdom. He asked the luncheon guests what value they brought to the companies they invested in, other



Ronnie Chan

than cash. One of the venture capitalists, Andrew Yan, managing partner of SAIF Partners, observed that most of the Chinese companies he invested in kept two or three sets of accounts before he invested in them. He said that once he had invested he sought to make sure their financial records were accurate and their corporate governance was up to scratch.

Overseen on matters of corporate governance and accounting are not one of Chan's strong suits, if the past is anything to go by. It will be recalled that he spent one of the less-distinguished periods of his career on the audit committee of the ill-fated Enron Corp, which spectacularly collapsed wiping out billions of dollars in employee pension benefits.

The website Business Insider has a list of what it calls the world's "Biggest Police States". Unsurprisingly there is often a correlation between the repression exercised by a regime and the size of its police force.

A police state is generally understood as one in which the state exercises restrictive controls over the social, economic and political life of a country - not unlike those found on the mainland. However, China does not feature in BI's list of 20 so-called police states. So what BI means by a police state is a territory which has a relatively high number

of policemen per head of population. Top of the list was Egypt with 1,493 police officers per 100,000 people, followed by Belarus, Brunei, Russia, Cyprus, Argentina, Italy, Spain, Portugal, Turkey and Macedonia.

Hong Kong comes in at 18 with a force of about 27,000 with 393 police per 100,000 people, just behind Zimbabwe. This is presumably a colonial hangover when, under the British, the police were used as an internal security organisation. But things have changed haven't they?

With global markets subdued by looming uncertainties in Europe and, to a lesser extent China, the OECD has come up with just the thing to put our minds at ease. It has produced what it calls a "happiness index" to measure well-being and perceptions of living conditions.

The launch of the Your Better Life Index is timed to coincide with the 50th anniversary of the OECD. It covers 11 areas: housing, income, employment, social relationships, education, the environment, the administration of institutions, health, general satisfaction, security and the balance between work and family. OECD secretary general Angel Gurría said: "This index encapsulates the OECD at 50, pushing the boundaries of knowledge and understanding in a pioneering and innovative manner."

Agence France-Presse reported. He added: "People around the world have wanted to go beyond GDP for some time. This index is designed for them. It has extraordinary potential to help us deliver better policies for better lives."

We feel it should come with a warning that although happiness can go up, it can in certain circumstances (like the present) also fall.

CONTACT US Have you got any stories that Lai See should know about? E-mail them to howard.winn@scmp.com

CURRENCY CALCULATOR

Figures are mid-price TT rates provided by HKAB

Table with columns for currency pairs (Australia \$, Britain £, etc.) and their corresponding rates.

US\$ MARKET RATES

Table with columns for Bid and Ask rates for various currencies like HK (\$), Japan (¥), Euro (€), etc.

KEY LENDING RATES

Table listing key lending rates for HK prime, US fed fund, US prime, etc.