

INSIGHT

Up to the task

Andrew Leung says that a prevalence of the old guard in the next Politburo Standing Committee won't mean China is stalling reform efforts; rather, it will ensure stability at a crucial time

“Are we obsessing about [China's] rise when we should be worried about its fall?”, asked academic Minxin Pei in a recent *Foreign Policy* article. Professor Pei thinks that, rather than worrying about how to contain a stronger China, it would be at least equally sensible to think about China's possible collapse or self-inflicted regime change in the light of the country's recent economic slowdown, bursting property bubbles, power struggles and political scandals.

This seems to echo the perennial theme of China's doubters. Among them, a leading light is Gordon Chang who has been serially predicting China's “coming collapse” since 2001.

Chang's arguments are that China seems to be turning xenophobic, pushing foreign investments away by insisting on “indigenous innovation”. China is heavily dependent on trade but there are now more exporting competitors among the



The different factions of the party polity all continue to benefit from China's continuing progress

emerging economies. China's economy is contracting as its population ages. Moreover, the leadership is failing to respond to a rising tide of social change.

The problems highlighted are by no means exaggerated. Indeed, at the opening session of the 18th party congress, President Hu Jintao (胡锦涛) announced that reform, particularly fighting corruption, is a matter of life or death for the party and the nation. But China's problems must be put in context. Consider the following.

- The latest OECD report, “Looking to 2060: Long-Term Global Growth Prospects”, suggests that, “China will overtake the euro zone in 2012 and the US within the next four years to become the largest economy in the world. By 2060... the combined gross domestic product of China (27.8 per cent) and India (18.2 per cent) will be larger than that of the Organisation for Economic Co-operation and Development – and the total output of China, India and the rest of the developing world (57.7 per cent) will be greater than that of OECD and non-OECD countries (42.3 per cent).”
- According to a recent *Economist* article,

“In the past 10 years... [China's] economy has quadrupled in size in dollar terms. A new (though rudimentary) social safety net provides 95 per cent of all Chinese with some kind of health coverage, up from just 15 per cent in 2000. Across the world, China is seen as second in status and influence only to America.”

- Pew public attitude surveys show that a vast majority of the population (exceeding 80 per cent) remains broadly supportive of where the country is heading.
- Pei and Chang seem to disregard the fact that China's leadership has long realised that the country must undergo reform to stay relevant. Hence the dramatic change in direction in the current five-year plan towards slower, more balanced growth.
- Notwithstanding competition and rivalry – common to all political systems – the different factions, power centres and vested interests of the party polity all embrace and continue to benefit from China's continuing reform and progress. The question is not whether to reform but where, how much, and how fast, and how to apportion power and influence.

● A large body of relatively moderate but yet significant reform measures have already been proposed in a 468-page World Bank report, jointly undertaken with the Development Research Centre of the State Council (a rare occurrence). These include reforming state-owned enterprises, liberalising the financial sector, defining the powers and obligations of local authorities to minimise the chances of “land grabs”, changing the *hukou* household registration system that discriminates against migrant workers, developing a green economy, and promoting civil society. Li Keqiang (李克强), who will succeed Premier Wen Jiabao (温家宝), is said to be a staunch supporter of the report.

● It must be remembered that democracy is not a dirty word in China's politics. The difference is that China remains unconvinced that copying the West's increasingly dysfunctional model is the best answer. China will therefore continue to find its own path towards effective, meritocratic, representative government of the people, for the people, though not directly by the people – at least not at this stage.

● Yes, China's international environment is becoming more hostile and its neighbours are growing more restless. But most of their worries translate into hedging their bets. There is nothing to gain in forming a bloc against their largest trading partner.

So, looking at the near-final list of contenders for the Politburo Standing Committee, why does it seem to be populated largely by “old brooms” not known for their reformist credentials?



First, quite near the 11th hour, the Bo Xilai (薄熙来) affair unexpectedly derailed the leadership transition process. The crisis required a rethink of the role and status of politically powerful portfolios in the Standing Committee, especially in regard to public security and propaganda. These were nearly hijacked by individuals like Bo and that must not be allowed to happen again. So a smaller Standing Committee of seven instead of nine was mooted, throwing open an even more fractious battle among factions and vested interests.

Second, a number of very senior, well-tried and well-connected Politburo members are near the age limit of 67 for entry into the Standing Committee. This is their last chance to make it. They include Yu Zhengsheng (俞正声) (67), Zhang Dejiang (张德江) (66), Zhang Gaoli (张高丽) (66), Liu Yunshan (刘云山) (65), and Wang Qishan (王岐山) (64). Their claims to a seat perhaps for just one term are difficult to brush aside, particularly when some are backed by the likes of former president Jiang Zemin (江泽民). The younger and perhaps more dynamic hopefuls, for example, Li

Yuanchao (62) and Wang Yang (汪洋) (雷世银) (57) may have to bide their time.

Third, given the need to root out the last of the “Bo Xilai gang”, stability remains paramount. The party may have reached a compromise to allow more old guards in the Standing Committee for just one term.

There is a consensus that not tackling problems like corruption could undermine the party's stability. This was borne out by Hu's strong words in his opening address at the congress. Regardless of the final choice, Hu emphasised that the party's objective is to achieve a middle-income society by 2020, doubling the 2010 per capita income in the process.

As the Standing Committee's task is to carry out China's collective decisions and ambitious goals, a new line-up of experienced veterans would not mean China is stalling reform. Indeed, they are well qualified for these tasks, which should concentrate their minds and keep their hands full.

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Eclectic avenue

Kelly Yang says the ESF is a vital part of the Hong Kong success story, as its subsidised education helps create a diverse population



One of the cardinal rules of education is “if something's working, leave it alone”. Last year, ESF's South Island School students attained one of the highest International Baccalaureate (IB) results in Hong Kong – an average 36.2 points versus the worldwide average of 31.9. Just to give you an idea, only two international schools “outscored” South Island – Chinese International School with a 38-point average and United World College with a 37-point average. Fees at both are far more expensive than at ESF schools.

I've taught local students and those from elite international schools in Hong Kong for more than seven years. I know the English Schools Foundation system works, and it does so because it's cheaper.

If you take the average student and the best student from ESF schools and compare them with their international school counterparts, the former are just as strong, if not stronger. This is particularly true in secondary school. This past year, seven ESF students achieved a perfect 45 points in the IB.

I've asked myself many times why the ESF works. In theory, it shouldn't get comparable results to international schools; it has bigger class sizes and a higher student turnover, and I think ESF parents have fewer financial resources to give their children. It works because it's subsidised: by being cheaper than international schools, there's greater diversity in the student body. Unlike international schools, it's not just full of the children of bankers and lawyers.

It's this diversity that drives the students. They are motivated to do well because they know there's no safety net, no trust fund, to fall back on. When I tell an international school student they need to work harder or they'll fall behind, they yawn. When I tell an ESF student the same thing, they sit up.

The ESF should remain as it is – subsidised, in English and offering an excellent international curriculum – because it helps drive the city's success. Hong Kong is what America was 100 years ago; a place that welcomes talented immigrants. Yes, the ESF's HK\$273-million-a-year subsidy seems hefty, but it's the price of having a diverse, international population, one that doesn't just help launch IPOs but also helps write our newspapers and teach our students. It is this eclectic mix that helps make Hong Kong Asia's world city.

The question remains, if the expats without lavish expat packages want to move to Hong Kong, why don't they put their children in local schools? The answer is simple: the vast majority of local schools operate in Chinese. Not only do they teach Mandarin, but most courses are also taught in Cantonese – that's just too hard for most non-Chinese-speaking families. It can be done, but I wouldn't recommend it. Education is stressful enough in Hong Kong without throwing two foreign languages into the mix.

Yes, the local system needs revamping, for a variety of reasons, not least because Hong Kong's standard of English is among the lowest in Asia. But major overhauls to the local system will take decades. In the meantime, leave the ESF alone.

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An independent HK is not on anyone's agenda

Victor Fung Keung says people are just resorting to extreme means to vent their frustrations

When Zuoer (陈佐洱), the former deputy director of the Hong Kong and Macau Affairs Office in Beijing and a key negotiator during the 1997 handover, said recently that “a force calling for Hong Kong independence has been gaining momentum in recent years, and it has spread like a virus”.

He needn't worry; there is no independence force, or virus.

Not for an instant would I or hundreds of others ever believe that an independence movement could take root in this city. Our water, fuel and food – without which we couldn't survive – all come from the mainland. Physically or politically, Hong Kong could never become independent.

Chen, an extremely patriotic Chinese citizen, can rest easy. No political party in Hong Kong ever talks of the slight possibility of an independent Hong Kong, and their political platforms, including those of the powerful Democratic Party and Civic Party, never offer hints that advocating independence is one of their goals.

I am also pretty sure none of the major think tanks in Hong Kong has called on the city to go its own way.

So why did Chen make such an alarmist statement? The timing of his warning betrays him, coming when he was in Hong Kong last month to launch a book, *Negotiations on The Handover of Sovereignty of Hong Kong: A Witness Recount*, in which he shares his experiences of the Sino-British negotiations over Hong Kong's future.

Most middle- and working-class Hongkongers, myself included, cherish the stable political, social and economic environment that enables us to make a living.

No one in this prosperous world city wants to start a revolution. Tycoons such as Li Ka-shing and Lee Shau-kee also love a stable Hong Kong so local and foreign investors will continue buying properties and boosting their profits.

Chen, who retired in 2008, also told a reporter that he was “heartbroken” to see a picture of a Hong Kong colonial flag being waved by a protester in Sheung Shui shouting at “parallel traders” to “return to the mainland”.

However, this was an isolated case. Sheung Shui residents say they have grown weary of hordes of cross-border professional shoppers pushing up the prices of milk powder and other daily commodities, and so resort to extreme means to drive home their point – such as wearing “Satan” masks or waving colonial flags. These are just expressions of anger, nothing more.

As long as we can enjoy the freedoms promised to us in the Basic Law, no one will waste their time and energy in fighting for an independent Hong Kong.

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Lack of political will stifling growth in Asia's services

Changyong Rhee says upgrading sector could see broad economic benefits

The euro-zone crisis has dominated discussions among policymakers over the past few years, but the economic slowdown in Asia's two giants – China and India – has become a source of growing public concern as well. How worried should we be about an additional drag on the global economy?

After years of double-digit gross domestic product growth, China's economy is decelerating. We predict its growth will slow to 7.7 per cent this year, from 9.3 per cent in 2011. Its population is ageing, real wages are rising and growth is moderating towards more sustainable rates.

India, too, has massive potential to grow fast and reap a demographic dividend, but it has been struggling with structural reform. We expect that India's expansion will slow to 5.6 per cent in 2012, from 6.5 per cent last year.

Weak external demand is partly responsible for the slower growth, but internal factors – namely, slowing investment and stagnating consumption – are also holding back expansion. Maintaining growth in a global slowdown requires rethinking the future of “factory Asia”.

Asia's boom was driven largely by intraregional manufacturing linkages. But, with budget-tightening around the world, demand for Asia's exports is expected to continue to falter. So where should Asia look for new sources of growth?

Upgrading the service sector – for example, business processing, tourism and health

care – could play a critical role in future growth. Asia's service sector is already large; services accounted for nearly half of developing Asia's gross domestic product in 2010, while service workers comprise more than one-third of the total workforce.

If these countries follow the same path as the advanced economies, agriculture's dominance will give way to industry, which in turn will be supplanted by services, further broadening their role.

Making Asia's service sector more dynamic is essential. But it is still dominated by traditional services such as restaurants, taxis and barbers. Modern services – such as internet connectivity technology, or financial, legal and other professional business services – account for less than 10 per cent of Asia's service economy, well below the 20-25 per cent in advanced economies.

Labour productivity is also quite low: for most economies in the region, service-sector productivity is less than 20 per cent of the OECD average.

A vibrant service sector could have broad economic benefits. Synergies between services and industry could improve overall productivity. Modern services are becoming increasingly tradeable, providing new export opportunities.

Skills gaps and a lack of infrastructure are frequently cited as factors that hinder service-sector dynamism in Asia. But burdensome regulations are the biggest barrier. Excessive regulation that protects incumbent firms and other

vested interests undermines market competitiveness and limits prospects for improved efficiency.

Many service firms in Asia are owned by the public sector, so governments have less incentive to deregulate services. But the same authorities have already opened their manufacturing and agriculture sectors for the common good.

Why, then, do they maintain policies that protect the special-interest groups that dominate the service sector?

Many argue that regulations protect small domestic firms against undue competition from large foreign players. But the truth is that the regulations are stifling even for domestic competition.

Asian policymakers must remember how they successfully developed their manufacturing sector – through competition. The same logic should be applied to services.

Upgrading the service sector is low-hanging fruit for Asia, because investment is not required. And yet service-sector reform remains just out of reach, owing to the absence of the political will needed to dismantle the vested interests that keep it there.

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Indonesia is the sort of friend America needs

Tom Plate says Jakarta could be Washington's special ally in Asia and the Muslim world

Within days, US President Barack Obama is set to visit Southeast Asia and this is a very good thing. The region is becoming more significant by the month.

I am slightly sad he will grace only three countries: Burma, Thailand and Cambodia. Taken together, the region's population comes in at about 600 million, half of which is Muslim.

America especially needs extra focus on Indonesia, where 90 per cent of its 248 million citizens are Muslims, making it the country with the largest Islamic population anywhere.

The US needs to keep repeating that last fact. Not too long ago, Jakarta was a main crossroads in America's anti-communist crusade in Asia but when the Iron Curtain fell, so, generally, did Washington's interest.

The country has suffered shock after shock of bloody terrorist attacks and recovered; it practically tore itself apart economically (helped along by bad Western advice) during the Asian financial crisis – and recovered.

Despite suffering a series of ineffectual leaders, it is evolving away from authoritarianism and practises a rough-functioning democracy that offers real promise. Today, Indonesia is on its feet, with a forward-moving economy, a president who is ensconced in his second term, and a future that looks markedly more hopeful.

It is also a constitutional secular democracy, even with its

deep Muslim culture. This needs to be noted in Washington more often. After all, economics aside, the US faces two huge global issues. One is how to get its relationship with China into proper balance. That won't be easy, but it is doable. The other big challenge is harder: how to get a proper handle on its rolling relationship with the Islamic world. Is that doable?

So far, too many sectors of the Islamic world have huge issues with America. And so, if second-term Barack Hussein Obama – the son of a Muslim – were to make any foreign-policy goal his priority (outside global economics), it should be to advance US ties, co-operation and the level of trust with the Muslim world.

The US cannot do this alone. It needs a strong friend, and Indonesia could be that special ally. Wary of China, though not antagonistic, and conversant with Islam, though anything but “radical”, Indonesia is a huge untapped geopolitical and diplomatic resource. Jakarta could contribute much to global peace and stability.

The world's fourth-most-populous nation can help the third-most-populous in ways not so far tried. But the US must, for once, listen with humility and appreciation. In this way, the well-intentioned “pivot” to Asia won't turn into yet another ungainly foreign-policy divot.

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