THE BUSINESS TIMES
Singapore Press Holdings
News Centre, 1000 Toa Payoh North, Podium Level 3, 318994
• PHONE: 6319-6319 • FAX: 6319-8277
• INTERNET: www.businesstimes.com.sg
• EMAIL: Press releases: btnews@sph.com.sg
: Letters to the Editor: btletter@sph.com.sg
• OPS DESK: 6319-5360 CUSTOMER SERVICE: 6388-3838

China plays into Japan's hands with oil rig move

EDITORIAL

CONSUMMATE though China can be at times in its diplomatic skills, it appears to have played straight into the hands of Japan by the timing of its move to station a massive deepwater oil drilling rig close to a tiny island in the South China Sea claimed by both China and Vietnam.

Japanese Prime Minister Shinzo Abe was scarcely back in Tokyo from a trip to Brussels where he signed a cooperation agreement with Nato to resist any attempt by outside powers to claim territory by force when Beijing presented both parties with an apparent attempt to do just that. Not that Nato is likely to take up arms against China over the stationing of the rig in disputed waters, or over territorial disputes involving the Paracel and Spratly Islands, but China's latest action does allow Japan to point the finger and say "we told you so" to Nato and others. Beijing's timing was infelicitous too in that the stationing of a lumbering and highly conspicuous oil rig off Vietnam coincided more or less with the holding of an Asean leaders' summit in Myanmar. Predictably, the Asean leaders protested at China's action.

Mr Abe has spent a good deal of time and energy playing up the "China threat" both domestically and internationally since his Liberal Democratic Party-led government swept to power at the end of 2012. But his success in making China appear as the villain had been limited so far.

The Japanese leader was, of course, focusing on China's rival claim (along with that of Taiwan and others) to the Senkaku Islands in the East China Sea rather than on natural resources and fishing grounds in the South China Sea claimed by Vietnam, the Philippines and others as well as by China.

But it was always possible for China to argue with some legitimacy that Japan precipitated a conflict over the Senkakus by the heavy-handed decision of former prime minister Yoshihiko Noda to "nationalise" the territories on behalf of the Japanese government in 2012.

The rest of the world did not appear eager to get involved in the dispute on either side and even Japan's formal "ally", the United States, has been clearly very reluctant to get dragged into the Senkaku Islands dispute under the terms of its Mutual Security Treaty with Japan.

China may now have changed this situation "at a stroke" however, with what looks like an even more heavy-handed and bullying tactic towards Vietnam (with an attendant and implicit threat against the Philippines and others) in stationing the massive oil rig in a provocative location.

Bumping and banging between Chinese and Vietnamese vessels at sea around the rig is reminiscent of similar tactics that were employed between Chinese and Japanese boats in the vicinity of the Senkaku Islands a year or so ago, and does none of the parties' images or credit any good. At some point, hopefully before more serious conflict erupts, as it surely will if Vietnam or even Japan attempt to "confront" China at sea, the issue of maritime claims can be settled by diplomacy and compromise, as others (including Bangladesh and Myanmar) have proved capable of doing.

But, for the moment, China appears to have ceded the moral high ground by its resort to oil rig politics, and that will not go down well with an international community that up to now had appeared anxious to remain neutral and not to get involved on Japan's or anyone else's side.

Big rush: *Penang began to attract global IT companies such as Intel as early as the 1970s but is only now becoming a household name as Malaysia's second economic hub.* PHOTO: THE STAR

Time for the next tier of Asean cities to stand up

The sine qua non in bringing them to global standards is investment in infrastructure

By **PARAG KHANNA** and **MOHIT MEHROTRA**

ASEAN countries have weathered the financial crisis well. Having built up current account surpluses, controlled inflation, increased savings and investment, and lowered unemployment, Asean is enjoying – and should continue to enjoy – at least a decade or more of solid growth.

But for Asean's economies to be more resilient and equitable in the long term, they need more geographic diversity. Asean's growth story has been centred on its capitals and financial centres such as Singapore, Kuala Lumpur, Manila, Jakarta, Ho Chi Minh City, Yangon and others. Now is the time to accelerate investments into secondary cities in ways that can broaden the economic base, reduce inequality, and diversify industries.

A world of shrinking international inequality but rising domestic inequality is one where national average statistics become almost meaningless. In the largest and most geographically dispersed economies of the world – the United States, Brazil, Russia, China, India and Indonesia – the differences in prosperity between core and peripheral regions within each country have become starker than the gaps between their respective capital cities.

In this new landscape, we must think of competitiveness as much as a provincial issue as a national one. Various sub-state regions, territories, and municipalities need to have their own competitiveness strategies, or economic master plans, to capitalise on domestic growth and international connectedness.

The Asia Research Institute (ARI) at the Lee Kuan Yew School of Public Policy in the National University of Singapore has produced a very important study of the competitiveness of Asian countries' provinces. Using over 90 indicators, it ranked the 34 economies of Greater China, 35 states of India, and 33 provinces of Indonesia according to: macroeconomic stability; government and institutional setting; financial, business and manpower conditions; and quality of life and infrastructure development.

Indonesia's distribution of rankings in the ARI index is revealing as to the deep developmental divisions inherent across Asean today. Jakarta's score is 1.75, with 0 being the mean across the study.

Stark distributions

The next closest within Indonesia are Jawa Timur and Kalimantan, with scores of .66 and .55, respectively. Twenty of Indonesia's provinces had negative rankings, the lowest being Nusa Tenggara Timur. Other Asean countries exhibit similarly stark distributions. Foxconn's recent announcement that it will spend US$1 billion on new factories in Indonesia – entirely in Jakarta province – is a reminder of how investment benefits continue to accrue largely to capital regions.

Asean's stellar economic performance thus continues to mask tremendous weaknesses. As Asia comes to rely less on exports to Europe and America and more on internal trade within the region, a far-broader footprint of modernisation will be needed to sustain growth. This means ramping up the competitiveness of second-tier cities – as fast as possible.

Asean has much to learn from the performance and strategies of once second-tier Chinese cities that have now joined the global big leagues. Guangzhou and Tianjin, for example, have both risen up the global value chain substantially over the past decade through infrastructure investment, setting up special economic zones (SEZs) to attract investment and develop new industries, and expanding the role of financial institutions in lending to local and regional companies.

Some elements to consider, for an enhanced play by tier-two cities:

◆ Devolve but support provincial economic strategies:

Increasingly it is not just countries that develop five- or 10-year visions, but cities and provinces. Each needs to determine its comparative advantages (whether manufacturing, education, eco-tourism, or other specialisations) and formulate an economic master plan to vigorously pursue them. Supporting those plans must be a foremost national priority.

◆ Attract capital through special economic zones:

Across emerging markets, SEZs are multiplying in number in order to leapfrog opaque bureaucracies and red tape, attract manufacturing and services supply chains, and forge hybrid governance structures that fuse foreign investors with city and industry authorities. The combined effect is rapid job creation, quickly moving local economies up the global value chain, and creating positive spillovers into the rest of the province.

◆ Stronger focus by financial institutions:

International and domestic banks based in capital cities overwhelmingly channel their lending to big projects and companies clustered around the capital itself. But commercial and retail lending to SMEs and for home mortgages needs to take place as locally as possible in order to build the housing sector and small businesses which form the backbone of the tier-two cities. Regulatory support for enhanced digital strategies by banks and non-bank financial institutions (local/foreign) will be an important element as well.

The *sine qua non* in bringing second-tier cities up to global standards is investment in hard and soft infrastructure. Whether largely domestic-driven (as in Vietnam) or through cross-border initiatives (as with Singapore in southern Malaysia), physical infrastructure upgrades, IT connectedness, more transparent institutions and regulations, a trained labour force, and social services (health and education) are the foundations and catalysts for building the productive capacity today's peripheral areas need to get on the map.

Diversifying base of growth

This process of diversifying the geographic base of growth takes time to unfold. Penang, for example, began to attract global IT companies such as Intel as early as the 1970s but is only now becoming a household name as Malaysia's second economic hub. In heavily populated and distributed countries such as Indonesia and the Philippines, it should have begun much earlier. The good news is that governments have pledged significant infrastructure spending in the years ahead.

Asean's future ultimately rests on whether its second-tier cities can arrive soon at where their capitals are today.

Parag Khanna is an Adjunct Professor in the Lee Kuan Yew School of Public Policy and a Senior Fellow at the Singapore Institute of International Affairs (SIIA). Mohit Mehrotra is Executive Director in the Financial Services Consulting Practice at Deloitte.

THE BOTTOM LINE

Beijing's GDP pursuit gives way to quality of life issues

A WEEK after new World Bank figures indicated that China would overtake the United States this year and become the No 1 economy comes the news that, for the first time, the world's three biggest public companies and five of the top 10 in the Forbes Global 2000 List are Chinese.

American companies accounted for the remaining five on the top-10 list. The biggest US companies were JPMorgan Chase and Berkshire Hathaway, in fourth and fifth place respectively, trailing Industrial and Commercial Bank of China, China Construction Bank and Agricultural Bank of China.

There are no European companies among the top 10. Royal Dutch Shell and HSBC Holdings, which were among the top 10 last year, have been edged out.

Xinhua, the official Chinese press agency, reported the news without comment under the headline "China has world's 3 largest companies: Forbes". This was unlike the treatment given to the report the previous week that China would become the world's largest economy this year. Then, the news was played down, if reported at all.

In fact, the official *People's Daily* newspaper made clear the disdain with which the Chinese government held predictions using purchasing power parity by declaring, "Chinese want a better life, not an artificial ranking as world's No 1 economy".

It cited "another report from the World Bank" which "indicated that the GDP of the United States was about US$16.8 trillion in 2013, ranking first, while China's GDP was only US$9.18 trillion, ranking second". It then put things in better perspective by saying: "China's per capita GDP ranks only 99th in the world".

Clearly, China was not comfortable about its elevation to the world's No 1 economy by the end of this year. Being in second place is more comfortable and can be used by the government to urge the Chinese people to work harder.

The *People's Daily* recalled that "catching up with the United States" was once stated as the goal of the Chinese people. But, it added pointedly, "this meant not only the pursuit of economic strength, but also a strong demand for self-esteem and self-confidence".

FRANK CHING

It pointed out that during the Qing Dynasty (1644-1911), "China's GDP led the world" but at the time China's was "a backward, isolated, ignorant and humiliated society".

Thus, it concluded, "for most Chinese, a better quality of life with safe food, water and air is more important than being the world's No 1 economy".

Thus, pursuit of GDP, which drove Chinese policy for most of the past 35 years, has now taken a back seat to quality of life issues.

This approach is reflected in the language used by the country's top leaders nowadays. Thus President Xi Jinping, in a speech in Zhengzhou on Saturday, said the country should adapt to new norms for its economic growth and a slowing down of its economy.

"We must boost our confidence, adapt to the new normal condition based on the characteristics of China's economic growth in the current phase and stay cool-minded," he said.

The same day, Zhou Xiaochun, the central bank governor, asserted at a conference in Beijing that there would be no massive stimulus of the economy and macroeconomic policies should be stable.

These remarks coincided with reports that growth in the first quarter had dropped to 7.4 per cent, substantially below the 7.7 per cent of 2012 and 2013 and considerably less than the double-digit growth of previous years.

In a talk at the Asia Society in Hong Kong on Friday, the former chairman of the China Banking Regulatory Commission, Liu Mingkang, called on people not to worry about the size of the economy and which country China wanted to catch up with.

"China's economy is slowing down quite a bit," he said, but sustainability is more important than speed. Growth of about 7 per cent is still very good and as long as it stays at or above 6.8 per cent, nine million new jobs will be created each year, he said.

What is more important, Mr Liu said, is reform and the way that is managed and not the size of the economy.

One significant reform announced by the State Council before the weekend is the building of a new share-listing system centred on greater disclosure of information. The guideline acknowledges that China's stock markets are still not mature and set the goal of a "multi-tier capital market" by 2020.

The de-emphasis on GDP growth, stress on environmental protection, reform, and greater disclosure of information to investors are all steps in the right direction. Progress depends on future execution of these policies.

The writer is a Hong Kong-based journalist and commentator. Follow him on Twitter: @FrankChing1