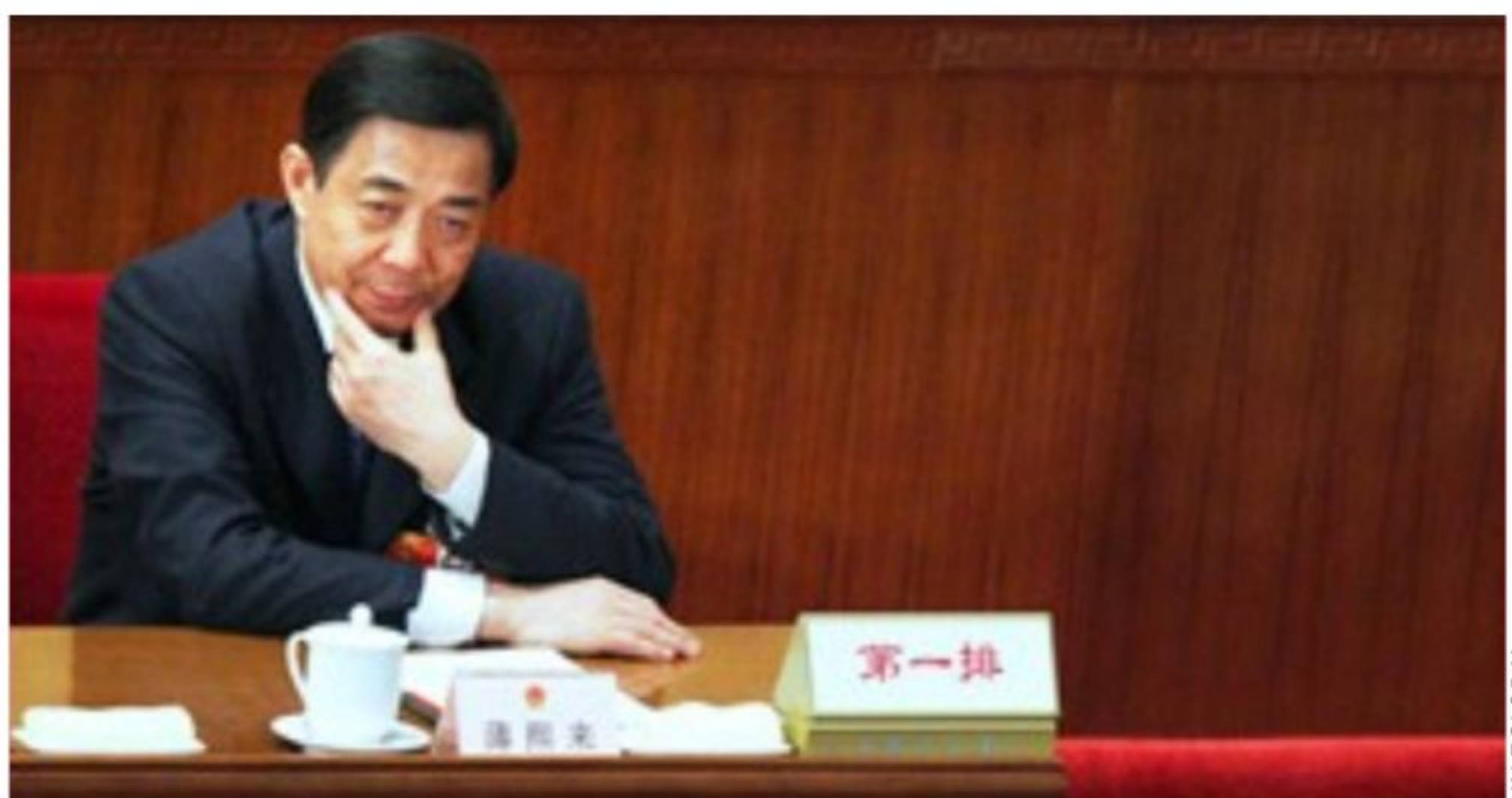


No ancient wisdom for China



Power corrupts: Dismissal of Chongqing's party chief Bo Xilai exposes political corruption.

JAMES MCGREGOR

CHINA'S phenomenal rise has led many to view the country as an indomitable juggernaut. Why then does Premier Wen Jiabao describe the country's economic model as "unstable, unbalanced, uncoordinated and unsustainable?" Because it is.

The much-vaunted China Model has morphed in the past decade to a one-of-a-kind system of authoritarian capitalism that is in danger of terminating itself and taking the world down with it. It is also proving incompatible with global trade and business governance, and threatening multinationals that fear losing technology and business secrets to China's mammoth state-owned enterprises (SOEs) they are forced to partner with.

The Chinese Communist Party has two unwavering objectives: make China rich and powerful and guarantee the party's political monopoly. Some top party leaders

are pushing far-reaching reforms that expand the private sector and empower entrepreneurs. They believe that the party must cede its smothering hold on economic power to foster growth and social stability. But such plans face determined opposition from others enriched by the status quo.

Describing the dilemma, a senior economic planner cited a line from a Tang Dynasty poem, "No ancient wisdom, no followers," referring to new endeavors during tumultuous times. "Policy formulators in China often have a sense of venturing out alone," Liu He, deputy director of the Development Research Center of the State Council wrote in an essay advocating reforms, "with no ancient wisdom to guide them and nobody appearing to follow them."

Deng Xiaoping started down this path in the 1980s by allowing farmers to market a portion of their crops. Rural entrepreneurs quickly invested their earnings in local

enterprises. By 1996, these enterprises accounted for 36 percent of industrial output and 135 million jobs. Meanwhile, the country's Soviet-designed SOEs stagnated.

As the private sector rocketed ahead, the party concluded in the mid-2000s that a dominant state sector was necessary. To avoid the rise of Russian-style oligarchs, China opted for a party-led oligarchy. Control is exercised through the party's Central Organization Department that appoints all key leaders of the huge, monopolistic, centrally controlled SOEs. Most of these positions carry ministerial or vice-ministerial rank in the party, so they outrank their government overseers. As a result, these SOEs are more beholden to the party than the government.

This system was cemented in place with a 2006 directive designating two categories of industries for state involvement: "Strategic" industries armaments, power generation, oil, telecommunications, aerospace and more were to have sole state ownership or absolute state control. "Pillar" industries including automobiles, electronic communications, architecture, steel, nonferrous metals, and chemicals were to stay largely in state hands, meaning majority state control or ownership.

Also in 2006, China launched the infamous Indigenous Innovation campaign with the goal of transforming China into a technology powerhouse. The plans directed SOEs to obtain technology from multinational partners through "co-innovation and re-innovation based on the assimilation of imported technologies." Not surprisingly, multinationals and their governments saw this as a blueprint for technology theft.

Neither the World Trade Organization nor the array of bilateral trade dialogues and dispute resolution bodies has ever dealt with anything like China's authoritarian capitalism. Given the country's size and economic clout, it threatens to push existing systems to a breaking point. But China is also the biggest beneficiary of current configurations. Contradictions abound.

Statistics in support of reform are compelling. Though blocked from many sectors, and largely unable to get bank financing, Chinese private enterprise accounts for 90

percent of new jobs, 65 percent of patented inventions and 80 percent of technological innovation. Meanwhile, Chinese consumption is 35 percent of GDP versus 63 percent in Brazil and 54 percent in India. China is also facing what economists call "the middle-income trap," a stage when low-cost labor and easy technology adoption max out as competitive advantages. Without domestic consumers to offset export decline and drive growth typically through innovation the emerging economy will languish. The World Bank says that that in 1960 there were 101 middle-income economies. By 2008, only 13 of them had reached high-income status. The reason is that those enriched during the developing state are often entrenched and able to block change.

China's first decade of WTO membership and simultaneous return to favoring SOEs has been lucrative for SOEs. A June 2011 study by the Unirule Institute of Economics, an independent Chinese policy research center, detailed how SOEs are eating the fruit of reform. Unirule estimated that SOEs had accumulated some RMB 5.8 trillion in profits from 2001 to 2009. But if the discounted land, cheap utilities, lowball interest rates and other subsidies unveiled by Unirule are deducted from SOE profits, the real average return on equity for the period is negative 6.29 percent. As of 2010, only 2.2 percent of SOE profits were turned over to the state.

The past decade has been China's version of America's Robber Baron Era and Gilded Age compressed, compounded and intensified. Previously, the party seemed to operate under an unspoken "don't ask, don't tell" adage. The party aristocracy could use influence to accumulate family assets, but they were supposed to keep it low-key. According to a Bloomberg study, the wealthiest 70 members of the National People's Congress now have a combined worth of \$90 billion.

A window into the use of SOEs to harvest wealth and undergird party power was cracked open by the March detention of Politburo member Bo Xilai for "serious discipline violations" and the arrest and later conviction of his wife, Gu Kailai, for

killing a British businessman. After Bo's detention, reporters dug up public records showing that his brother under an assumed name was vice chairman and the holder of \$18 million in stock options of a Hong Kong-traded SOE. Bo's sister-in-law was found to be serving on the board of more than 20 companies.

Less than three months after Vice Premier Zhang Dejiang was dispatched from Beijing to replace Bo as Chongqing city party secretary, the government announced RMB 350 billion worth of contracts involving several dozen central SOEs to boost the Chongqing economy and revitalize support for the party investments worth nearly \$12,000 per Chongqing resident.

The most challenging reforms will be fixing the hukou, or housing registration, system enacted in the 1950s to prevent peasants from flooding into the cities. The government estimates that more than a quarter of urban residents in major cities lack an urban hukou. This population includes some 160 million migrant workers who lose access to health care, education and other social services once they leave their countryside homes. Just over 50 percent of the Chinese population now lives in cities. With 13 to 15 million migrating to the cities annually, this is expected to reach two-thirds by 2030.

The good news is that hukou reform could transform 10 million migrant workers annually into the next wave of urban consumers, forming a "potential new global market of unprecedented size" that would boost the world economy, according to DRC economic planner Liu He.

The Party mouthpiece People's Daily was bellicose after President Barack Obama criticized China in November 2011 for "gaming the system" of international trade. The paper responded that the US should realize that "Smart people move with the times, conceded people are eliminated by history."

That's solid advice for China.

The writer is a Journalist turned businessman who has lived in Beijing for more than two decades.

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The long journey to peace

RANDY DAVID

THE "Framework agreement" jointly drawn by the negotiating panels of the Philippine government and the Moro Islamic Liberation Front (MILF) is a significant advance in the protracted quest for peace in Muslim Mindanao. But, even as we bank on the inherent infectiousness of peace agreements, we should be wary about expecting too much too soon.

The agreement, as I see it, is a commitment by the two parties to pursue a common track leading to a final agreement, and to oversee its realisation in the form of governance structures appropriate to an autonomous political entity. It marks the crucial points in a journey toward enduring peace, and invites the rest of the world to join and lend its goodwill to the pilgrims who have embarked on this precarious trip, even as there is no assurance that they will reach their destination. It offers us a glimpse of peace that is attainable in our time.

Its announcement at this early stage signals the start of the hard work of popular consultation, of securing a broad consensus, and incorporating refinements in the comprehensive agreement to be announced soon. The government will try to explain to the public via the mass media, and to the various institutional stakeholders of the state via Congress, what a final agreement requires in terms of the most crucial issues: power-sharing, wealth-sharing, scope of the autonomous region, constitutional implications, etc.

The MILF will try to explain the advantages of the planned "new autonomous political entity" to its "Bangsamoro" constituency, which includes not only the communities under the control and supervision of the MILF, but also those that are under the leadership of groups like the Moro National Liberation Front and other breakaway armed secessionist movements. They will also need to bring into these consultations the non-Muslim communities both Christian and non-Christian that lie within the designated autonomous region.

The outcomes of all these consultations at various levels must somehow find their way into the design of the basic law that Congress has to approve. If such a law can be accommodated within the existing framework of the Constitution, then that would greatly simplify matters.

But if it will entail amending the Constitution, as it most likely will, we hope the nation will calmly consider the possibility and not reject it out of hand.

None of these tasks is obviously going to be quick and easy. Though the initial objections have been muted, stumbling blocks are bound to be erected on both sides of the fence. I believe everyone is hoping that a strong enough peace momentum will have been generated by now to propel the process to its next crucial stages. Indeed, there's probably no other way to engage the participation of the larger national and international community in this complex and formidable effort but to mark and celebrate every

breakthrough, no matter how small.

One of the major weaknesses of the 2008 peace agreement that called for the creation of a "Bangsamoro Juridical Entity" had been precisely the perceived lack of transparency in its crafting and the suddenness with which it was announced. In my view, these were procedural lapses rather than major substantive defects. It would be interesting to compare the final agreement that will emerge from the current process with the previous one that was summarily opposed by the nation's leading politicians and subsequently thrown out by the Supreme Court. My hunch and I don't mean this as a criticism that the differences would be fundamentally semantic.

The 2008 Memorandum of Agreement on Ancestral Domain (MOA-AD) was not a carelessly crafted document that some of its critics had made it out to be. It was, I still believe, a thoughtful attempt to offer a formula for peace and stability in a region whose relationship to the national state has been continuously contested. It did not spring out of nothing; it grew out of the consensus built from previous talks.

The perceived weaknesses of the MOA-AD stemmed primarily from the fact that the government panel was negotiating in the name of a president whose credibility and legitimacy had sunk to the lowest conceivable point. After 2006, when Gloria Macapagal-Arroyo tried to impose a state of national emergency, every major agreement that her administration attempted to enter into with any entity became automatically suspect. GMA's presidency was so beleaguered that it could not focus on anything beyond ensuring its survival till 2010.

Contrast this with today's conditions. There's a new leader in the Palace who enjoys some of the highest trust and approval ratings in the nation's political history. But, more than this, even at the risk of being called reckless, he has demonstrated a strong resolve to end the conflict in Mindanao by agreeing to meet with the leader of the MILF outside the country.

This has given the government negotiators the kind of mandate that inspires confidence in those with whom they deal. Unlike his predecessor, P-Noy has not hesitated to stick his neck out to manifest his unwavering personal support for initiatives that otherwise could be struck down before they are explained.

It is wonderful to see that other countries have greeted the breakthrough in Malaysia with profuse praise. But to say we are almost there would be to raise public expectations to unrealistic levels. Old biases survive and remain unexamined. To some of our countrymen, every little concession to the Moro leadership is tantamount to treason. It may greatly enrich their sensibility if they read more about the history of Mindanao and its peoples.

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South Asia: Sub-Regions and regional connectivity

D. SUBA CHANDRAN

THE Consortium of South Asian Think Tanks (COSATT) has just concluded a regional dialogue in Thimpu in Bhutan on connecting South Asia within and with the neighbouring regions. Undoubtedly, problems are plenty in connecting the region within and with Southeast Asia and Central Asia, but what needs to be done? Neither the ASEAN nor the European Union got integrated in a day; can South Asia learn from the other regions, and devise its own strategies to connect within and with the neighbours? In particular, what role could the sub-regions of every country play in connecting with the other country?

The fact that the South Asians have to use Bangkok or Dubai to travel within the region will highlight how poorly we are connected. Consider the following: if someone has to travel from Pakistan to Maldives or Bhutan, he or she will have to travel to Dubai or Bangkok first, before returning to South Asia. Or, for someone to fly from Colombo to Kathmandu, they will have to go via Singapore or Bangkok. Infact, Thai Airways fly to most of the capitals in South Asia, than any of the national airlines in the region.

Why are we so poorly connected? Given the low cost for air travel and budget flights, the cost cannot be a reason for poor connectivity. Despite the market, there is not much of movement within South Asia. Travel restrictions, especially the tough visa regime in South Asia play a crucial role in the low connectivity within the region. When compared to Southeast Asia or Europe, South Asia should have the poorest visa regime, obstructing travel within. While the travel between Nepal, India and Sri Lanka are relatively easier, there is hardly any legal movement between Bangladesh, Pakistan and India.

While there are multiple reasons for the above problem, the objective of this commentary is to focus on what the sub-regions within each country in South Asia could do to pressurize their national capitals to move faster in linking the region within and with the neighbours. For example, J&K, Sikkim, West Bengal and Northeast in India will have to play an active role in convincing New Delhi to open up to the neighbouring countries.

The neighbouring regions and countries will appear differently when seen from Guwahati, Kolkata, Srinagar, Leh and Gangtok. These regions may be far both physically and emotionally from New Delhi, but closer to the neighbours. For example, flying from Chennai to Singapore, or Guwahati to Bangkok may be faster than flying to Delhi. Emotional, cultural and historical linkages between the Northeast and Southeast Asia may be substantial from the rest of India. Similarly Ladakh and Sikkim will have more linkages with Tibet than the rest of India. The monasteries, art, paintings, religion, history and legends in Sikkim, Ladakh and Tibet will tales of interconnectivity that existed until the last century. Same will be the case between West Bengal, Bangladesh and Northeast.

While New Delhi views the neighbours primarily through a political prism and bilateral relations, sub-regions of India have failed to come up with an actionable plan that could pressurize India to take this connectivity forward. It is more in the interest of the sub-regions of India than New Delhi, that the borders are better con-

nected and economically inter-linked. While an open border and unlimited travel across them may be ultimately desirable, it may not take place in the near future. However, what we could work towards is for more connecting points, better movement across the border, and economic integration of the border regions. Border trade could easily be managed across the existing boundaries.

While the political relations between India and the neighbouring countries will play a crucial role in how New Delhi perceives these border interactions and economic integration, one should also agree that the perceptions in the Ministry of External Affairs (MEA) and Prime Minister's Office (PMO) have changed considerably in the last few years, and remain positive today. Hence, there is a window of opening and opportunity to prepare an actionable plan that India could consider implementing vis-a-vis the neighbours in terms of border connectivity and economic integration of the sub-regions across the national boundaries.

While the secretariat and chief ministers in the sub-regions are more politically intertwined with the home and defence ministries, their interaction with the foreign ministries have been insignificant. The States will have to exert more pressure on the Centre; for example, the PDP and NC regimes have taken up cross-LoC interactions the bus service and the trade, but will have to play a proactive role in taking them forward. The cross-LoC trade for instance, could be strengthened with more items and proper financial facilities to facilitate the process further.

In the case of border trade in Sikkim (vis-a-vis Tibet) and cross-LoC trade in J&K, it is easier to blame New Delhi for taking this process in the right direction. Rightly so. But besides blaming the other and accusing of failing to protect the regional interests, what positive contributions have been made so far? Preparing a memorandum of what should be done, or what is the local perception is not sufficient. There is a need to attempt a roadmap, with tangible goals and economic benefits; if this could be linked to a positive political fallout in bilateral relationships, it would take the process a long way.

The academic institutions and media have a very important role to play in this process. Unfortunately, our University PhDs are looking into historical connections and contemporary political problems, rather than attempting benefits of linkages, and innovative ways to make the borders as bridges vis-a-vis the neighbouring regions. The media is so embroiled in what is going wrong than what could be a way out. The research institutes and think tanks in regions are non-existent, or have limited capacity to influence.

The sub-regional initiatives then will have to get integrated with regional networks. The Consortium of South Asian Think Tanks (COSATT) is one such regional network, attempting to bring the region closer.

Bringing South Asia together should be the objective of everyone; the sub-regions will have to play an active role, for they are the bridges. Historically, culturally and economically, they have remained the bridges and gateways. Let us work together the re-ignite the past glory.

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