INSIGHT

Eye on the target

Francis T. Lui says China's five-year plan must address the salient issues of its structural transformation

The Central Committee of the Chinese Communist Party meets this week for the 5th plenum of its 18th National Congress. The main item on the agenda is to discuss and approve the 13th five-year plan, which will span from 2016 to 2020. In a globalising world shaped by powerful market forces, are national five-year plans typical of command economies still relevant?

Five-year plans set up targets, many of which often turn out to be grossly inaccurate. The worst one for China was the 2nd five-year plan of 1958-1962, where *none* of the multiple targets were met. The 6th (1981-85) and the 8th (1991-95) plans were also way off-target. Gross domestic product growth target for the former was 4 per cent per annum, but it finished up at 11 per cent instead. The average growth rate of 11.6 per cent from 1991 to 1995 also deviated wildly from the original target of 6 per cent.

China's central government, powerful as it is, does not possess the capacity to dictate how the economy performs.

This year is the last of the 12th five-year plan period. Despite all the worries about the slowdown of the Chinese economy, the planned target of 7.5 per cent GDP growth will certainly be fulfilled. During the first four years of the plan period, average GDP growth per year was 8.04 per cent. Even if the growth rate this year drops to 6.8 per cent, the economy will still enjoy an average growth rate of 7.79 per cent over the five years.

China's central government cannot dictate how the economy performs

Twenty or thirty years ago, few people in other parts of the world would pay attention to any of China's plans. Things have changed. Observers around the world now have to figure out what new economic policies will be undertaken in China. It was the focus of attention at the IMF conference held in Lima earlier this month. The International Monetary Fund's chief economist, Maurice Obstfeld, pointed out that the global economy was at the intersection of three powerful forces, China's economic transformation, the related fall in commodity prices, and the impending normalisation of monetary policy in the United States.

Obstfeld was right. The world cannot afford to ignore China's plans. Its success or failure will both have wide-ranging impact on other economies. The plenum this week will discuss how China is going to deal with fundamental structural changes. I can see at least five issues that should be addressed in the forthcoming plan.

First, China has adopted a developmental strategy very different from that of India. China has taken advantage of its abundant and cheap labour to produce and export labour-intensive goods. This has rapidly and directly created employment opportunities for large numbers of people migrating to cities from the countryside. India, on the other hand, has established a vibrant IT sector, which benefits the educated elite much more than the masses.

The drawback for China's strategy is that it now has to face fierce competition from other labour-abundant countries. This is forcing China to go up the ladder from labour-intensive to more technology-intensive manufacturing. Some of the proposals from the five-year plan will likely be related to how this transition can be done more effectively.

The second structural change is the transition from manufacturing and construction to the service sector. In 1980, services accounted for only 22.2 per cent of the GDP. Last year, its share rose to 48.1 per cent, surpassing the 42.7 per cent share of the manufacturing and construction sector. China's service sector probably will never be close to Hong Kong's 90 per cent share, but is bound to continue growing. An advantage of a large service sector, which is labour-intensive, is it can create a lot of jobs. Manufacturing may slow down. Possibly we will encounter long periods of disappointing purchasing managers' indices or low electricity consumption, but the decline in manufacturing can be offset by the expansion in services.

Third, China seems to be producing too much of certain goods, such as steel and coal. Excess capacity in production is a sign of inefficient resource allocation. When too much of some items is produced, there are likely shortages of funds in others. Serious pollution in many parts of China is an indication that not enough is being spent on environmental protection. Rebalancing productive capacities implies special structural changes. The five-year plan must consider new priorities. A greener environment should be one of those.

The opportunities are there. Waiting for others to tell us what to do is a bad approach

Fourth, large-scale migration from rural areas to the cities has been a major source of economic growth in China. People previously living in the countryside can quickly improve their productivity once they can take advantage of what the cities can offer. In 1978, fewer than 18 per cent of the population lived in cities and towns. Last year, more than 55 per cent belonged to the urban population.

The sheer size of the migration has created mind-boggling problems. Large numbers of new jobs are constantly needed. Children left behind in the villages by their parents are often inadequately educated or protected. There are probably 60 million left-behind children in China. Urbanisation will continue for a long time to come. A good five-year plan should come up with proper methods to deal with all the problems created by the rapid pace of urbanisation, itself an important form of structural change.

Finally, the "One Belt One Road" initiative and the internationalisation of the renminbi are two open-door policy initiatives that China will undertake in the next five years. "One Belt One Road" can help China export part of its excess productive capacity in infrastructure and expands its global market for goods and services.

Meanwhile, the next step in making the renminbi an international currency is to get it included in the IMF's special drawing rights basket. The IMF is expected to decide on it before the end of the year. If the outcome is positive, China will be busy formulating policies that will further enhance the renminbi as an international reserve currency.

Hong Kong, being a free port with core competence in trade, logistics, and financial services, has unique capabilities to contribute to China's economic transformation. Beijing, however, may not even know how to make the best use of Hong Kong in this regard. The opportunities are there. Waiting for others to tell us what to do is a bad approach. If we want to benefit more from the five-year plan, we have to uphold our own entrepreneurial spirit and come up with innovative adjustments ourselves.

Francis T. Lui is a professor of economics at the Hong Kong University of Science and Technology

No permanent friends in UK's new diplomacy

Emanuele Scimia says Britain's charm offensive to China shows that it may be focusing more on a rising multipolar world order and less on its special relationship with the US

Trade diplomacy, along with British Chancellor George Osborne's narrative of London that yearns to become "Beijing's best partner in the West", definitely dominated the scene in the just-concluded four-day state visit by Chinese President Xi Jinping (習近平) to the United Kingdom.

The problem for Britain is that the prospective pivot to the Asian giant, which Osborne first outlined on a high-level trip to China in September, has the potential to dent its long-standing relations with the United States. The government in Washington was already disappointed with the British leadership in March, when the UK was the first European Union country to join the new Asian Infrastructure Investment Bank, Beijing's alternative to the architecture of multilateral institutions that the US shaped in the aftermath of the second world war.

Britain is probably attempting to reshape its foreign policy, and it looks like Washington's possible decline as a superpower frightens the British cabinet much more than the current slowdown in China's economy. This does not mean that London will quietly fall into line with Beijing's policies, as some observers contend, alluding in particular to the UK government's apparent reluctance to engage Chinese leaders over human rights and the future status of the former British colony of Hong Kong.

The reality is more complex and mirrors the blossoming of a multi-vector diplomacy in London, much less focused on the traditional special relationship with the US and more concentrated on diversifying trade and political partners. In this prospect, the model to refer to is Germany, which is both a strong ally of Washington and a key economic partner for China (and Russia).

A multi-vector diplomacy entails that a country has no strategic ally, but only strategic interests. There is evidence that London is indeed taking this path, and in some cases at odds with China. Immediately after its approval, on September 18, Britain's Foreign Secretary Philip Hammond hailed a reform to Japan's self-defence laws that incensed Beijing and delighted Washington.

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This constitutional change reinterprets Tokyo's pacifist constitution and lifts some constraints on the use of the Japanese armed forces abroad that have been imposed on Tokyo since the end of the second world war. When someone advocates Japan's enhanced participation in security affairs, not least in regional security in East Asia, leaders in China start to raise their eyebrows, given maritime border disputes that currently pit Beijing against Tokyo in the East China Sea.

During a visit to Japan in August, Hammond announced that Britain would strengthen cooperation with Japan to ensure the rule of law in the Asia-Pacific region. In China, days later, the British foreign minister voiced his government's support for freedom of navigation in the disputed South China Sea. Hammond's remarks about the observance of international law to resolve territorial controversies in East Asia were in stark contrast to China's repeated efforts to alter the current system of international rules for its own ends.

It is worth remembering that Beijing unilaterally declared an air defence identification zone over the East China Sea in November 2013, challenging Japan's claims over the Diaoyu/Senkaku Islands. Furthermore, China has thus far rejected the legal case against its South China Sea claims initiated by the Philippines at the United Nations Permanent Court of Arbitration in The Hague.

With its charm offensive to China, London is probably betting on a new world order in which power is increasingly parcelled out among a number of great regional forces with global projection capacity. Against this background, the special relationship with Washington remains in place, but it will likely be tempered by pragmatic partnership with a still-rising Beijing. And the ability to balance relations between the US and China will ultimately define the true nature of Britain's foreign policy down the line.

Emanuele Scimia is an independent journalist and geopolitical analyst

Peng Liyuan, wife of President Xi Jinping, with British Foreign Secretary Philip Hammond. Photo: AP

China's green fingers can help African small farmers grow

Teodoro de Jesus Xavier Poulson says Africa is ripe with opportunities for Chinese agribusiness firms, and their expertise and technological support are essential to spur local innovation

In recent history, the world's fastest growing economies have been largely fuelled by oil, gas and minerals. Sustained economic growth, however, must be based on the proliferation of non-extractive industries, particularly those that drive innovation, feed a domestic supply chain and boost exports. China has demonstrated that agribusiness is one such industry. So what can Africa learn from the Chinese model?

China's modernisation has turned small-scale farms into larger production zones. Increasing efficiencies and maximising output requires hi-tech farming machinery. While China is a global force in the manufacture of farming equipment, it still relies on the importation of the very latest high technology. Data from Beijing-based Zeefer Consulting shows that China's agricultural industry has so far relied on domestically manufactured small-scale, low-end to mid-range machinery. It says that there is "a clear disparity between China's agricultural machinery manufacturing technologies and those of developed nations".

In this respect, China and Africa face a similar challenge – transforming farms through the use of foreign hi-tech machinery while also trying to stimulate domestic technological innovation. China is several steps ahead of Africa – it boasts over 1,800 medium-sized enterprises producing farming machinery and is the world's second largest manufacturer of farming equipment.

Right now Africa is bursting with opportunities for Chinese agribusiness firms, from animal feed technologies to irrigation systems, cereal processing technologies, packaging, new fertilisers and innovations in disease-free crops. According to the World Bank, around 69 per cent of all sub-Saharan Africans work in agriculture. Huge numbers are small-scale farmers trading locally or simply supplying themselves and their families with self-produced staple food.

Imported agri-machinery can transform the industry and in turn support home-grown innovation. The industry is already benefiting from investment in infrastructure – in Angola for example, new train lines and highways are making logistics easier for producers and processing firms. The World Bank projects that sub-Saharan Africa's agribusiness sector will be worth US$1 trillion by 2030.

African governments are creating programmes to help entrepreneurs in the agribusiness supply chain grow. In Angola, the government launched a public venture capital fund called FACRA in 2012, which provides a unique venture capital model for entrepreneurs. It provides growing companies with the capital they need to grow, alongside business support services. However, more importantly, it also acts as a partner for international companies looking to set up in Angola – helping foreign companies to find great growing businesses that they can invest in. Agricultural entrepreneurs in Angola now have a direct route to meeting foreign companies that have the expertise and technology they need to expand.

Regionally, the Africa Commission has launched an initiative to help young people in agribusiness to create new technologies. The Chinese Ministry of Agriculture has signed 31 cooperation agreements with 17 African countries. It has built 22 agricultural demonstration centres across the region and deployed hundreds of agricultural experts to help train young African entrepreneurs.

As in China, the agriculture sector in Africa employs millions. With concerted regional input and foreign technologies, it can offer sustainable long-term job prospects for millions more.

Teodoro de Jesus Xavier Poulson is a member of FACRA's investment committee

Arbitration finds Asian home

Matthew Secomb says legal improvements have helped Hong Kong and Singapore steal a march on their international arbitration rivals

Singapore and Hong Kong have both strived to establish themselves as the "go to" venues for arbitration in Asia, and it seems to be working. Indeed, both seats are beginning to compete with the traditional hegemony of London and Paris.

As our 2015 International Arbitration Survey shows, London and Paris remain the most used and preferred venues. However, the research – conducted by Queen Mary University of London with White & Case – reveals that Hong Kong and Singapore are gaining momentum, coming third and fourth.

The numbers show that these Asian seats are quickly closing the gap, but what are the factors behind their improvement? The research suggests that they were deemed to have improved due to better hearing facilities, the availability of quality arbitrators who are familiar with the seat, better local arbitral institutions and improvements to the national arbitration laws.

So while respondents' choice of the most preferred and used seats were driven by legal infrastructure, the reason behind those which had improved the most focused on convenience. Only one factor (improvements to national arbitration law) directly related to formal legal infrastructure. This is in contrast to why seats are most used – where the predominant reason given was the "reputation and recognition of the seat".

This suggests that once a seat's formal legal infrastructure reaches a certain threshold of quality, convenience factors become more important for potential users. In this situation, features such as the quality of hearing facilities become more prominent.

Indeed, the research suggests that the two most improved seats – Hong Kong and Singapore – fit these criteria. They were well-established seats five years ago and have now built on this foundation, making significant investments in their international arbitration "infrastructure".

The two have also benefited from the growth of emerging markets in Asia. This growth has created a West-East capital flow – often to fund mega-infrastructure, oil and gas and other energy projects. But these projects can lead to disputes over access to resources, finance and funding and conflicts of interest. Indeed, we're seeing more and more disputes involving Asian parties, with Singapore and Hong Kong becoming increasingly attractive as arbitral venues.

What must Singapore and Hong Kong do to cement their position? The key lies in further enhancing their reputation. But as Lord Browne, former chairman of BP, noted: "Reputation is best seen as a reservoir of goodwill, which takes years to fill up and only hours to empty." It's now up to these seats to fortify their gains.

Matthew Secomb is a Singapore-based partner (international arbitration practice) of White & Case LLP

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