

Andrew Sheng and Xiao Geng

The promise Pearl River Delta region holds

July 1, 2017, will mark the 20th anniversary of Hong Kong's reunification with the motherland. It comes at a moment when Chinese leaders are increasingly promoting Hong Kong's unique role in advancing the country's economic development.

Two months ago, Premier Li Keqiang described China's intention to deepen economic cooperation across the Guangdong-Hong Kong-Macao Bay Area — which Hong Kong analysts call the Pearl River Delta region — in order to reinforce its role as a major driver of sustainable development. The region comprises Guangdong's nine key cities — including Guangzhou, Foshan and Shenzhen — plus Hong Kong and Macao. Last year, the PRD region's population stood at 68 million, and its GDP was \$1.3 trillion.

The PRD region is the southern pillar of the three Chinese coastal growth clusters. In the middle is the Yangtze River Delta region, which includes Shanghai and has a population of 130 million and

GDP of \$2 trillion. To the north is the Beijing-Tianjin-Bohai corridor, covering 10 key cities; it has a population of 100 million and GDP of \$1.3 trillion. Taken together, these three clusters account for 21 percent of China's population and just under 40 percent of its GDP.

The PRD region has the lowest population of the three, but the highest income per capita, and it forms an important link between China and global supply chains. It gains a distinct advantage from the free-trade, low-tax, and highly globalized cities of Hong Kong and Macao — which are special administrative regions of China under its "one country, two systems" principle. Another major asset is Shenzhen, a highly innovative "special economic zone" boasting a dynamic capital market and a tradition of experimentation with private-sector-driven job creation and integration into global supply chains.

The PRD region's competitiveness is no accident. Former Chinese leader Deng Xiaoping used the region as a kind of public-policy laboratory,

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allowing different legal and institutional arrangements to exist concurrently, while China figured out how to approach globalization. The system clearly works, but it does suffer from a fundamental contradiction, related to economist Ronald Coase's concept of transaction costs.

Thanks to China's geographic, demographic and economic scale, "reform and

opening-up", in Deng's phrase, and technological progress naturally drive down transaction costs, improving markets' capacity to allocate resources. This process often fuels specialization, with regional or municipal economies focusing on their own competitive advantages, in order to maximize their gains from the decline in transaction costs.

Such specialization can be seen clearly in the PRD region. Hong Kong is a hub of international finance and services, while Macao establishes itself as a global gambling and entertainment center. On the other hand, Shenzhen is focusing on technological innovation; Guangzhou is a global trading hub; and Foshan and Dongguan are major manufacturing bases. While each city appears to be imbalanced in its economic structure, the city cluster as a whole is well balanced and highly competitive.

But, and herein lies the contradiction, massive numbers of transactions can raise financial, social and security risks, which in turn can fuel system-

ic volatility and contagion across regions and sectors. To mitigate these risks, governments and regulators must intervene, potentially even imposing restrictions on markets that artificially raise transaction costs. China's leaders would do well to remember this as they attempt to take advantage of the strengths of various systems to build a more open, modern, and faster-growing economy.

Chinese policymakers certainly recognize the value of city clusters to advance economic development and ease the pressures of rapid urbanization. The urban share of the Chinese population surpassed 50 percent in 2011, and another 300 million people could be living in urban areas within the next 20 years. In this context, city clusters could be essential to innovation and job creation, particularly in the service sector, while limiting resource wastage, avoiding further environmental degradation, and easing urban congestion from overcrowding.

As for Hong Kong, China's leaders view it as a source of

valuable economic-development "software" — including an independent judiciary, a robust anti-corruption regime, a stable currency, and world-class capital markets. Hong Kong's high quality and internationally oriented education system, and efficient and sophisticated urban-management plans are also important assets. Hong Kong's "software" complements the mainland's broader drive to build the "hardware" of development, exemplified in the Belt and Road Initiative, which entails massive investment in infrastructure linking China to Eurasia and Africa. Already, stock-connect projects involving Hong Kong, Shanghai, Shenzhen and London are being established to support Chinese city clusters' ability to meet the Belt and Road-driven demand for offshore financing.

But more must be done to help Hong Kong — and, more broadly, the PRD region — to meet its potential. Hong Kong's world-class services sector is working below capacity now, owing to physical constraints. With better

cross-border transport infrastructure and more flexible plans for delivering medical, financial and social services, senior citizens could retire outside of Hong Kong's city limits, creating space for younger workers.

While many observers focus on China's credit glut, the authorities are quietly fostering the development of dynamic city clusters. But, in order to protect and sustain this progress, Chinese policymakers must work to minimize the risks associated with rapid urbanization and growing specialization. Otherwise, trends that are doing China so much good may end up undermining prosperity and social stability.

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Li Haidong

Only a candid US can pave way for fruitful talks

Among all the issues the first round of China-US Diplomatic and Security Dialogue, to be held in Washington on Wednesday, aims to touch upon, the pursuit of clarity and consistency will be the most closely watched.

State Councilor Yang Jiechi is due to co-chair the dialogue with US Secretary of State Rex Tillerson and Secretary of Defense James Mattis.

Designed according to the consensus reached by the heads of state of the two countries at their meeting at Mar-a-Lago, Florida, in April, the dialogue will involve in-depth exchange of views on China-US ties and other critical issues of shared concern, and of course, a road map for future diplomatic and security-related cooperation. And for it to bear the desired fruits, candidness is the key.

Mixed signals have been received from time to time from US President Donald Trump's administration. Known for his unpredictability, the United States president could in one breath promise to build a sound relationship with China and in the next

send warships to continue the "freedom of navigation" operations in the South China Sea. China needs less confusing responses to its consistent, coherent US policy that rests on respect and shared interests, and not on confrontation.

The dialogue in Washington is expected to reduce uncertainties in bilateral ties. A comprehensive exchange between senior officials from both sides would make clear their respective diplomatic focuses and security priorities, laying the groundwork for more concerted efforts to manage their differences.

In particular, how to resolve thorny issues, from trade frictions and the deployment of the US Terminal High Altitude Area Defense anti-missile system in the Republic of Korea to cyberattacks and human rights, will be high on the agenda of the dialogue. Highly controversial, these issues warrant honest, face-to-face exchanges of views on what defines the China-US relations.

The Trump administration appears to make Pyongyang's nuclear program as the most critical factor in its ties with

Beijing. Neither China nor the US wants the Democratic People's Republic of Korea to develop nuclear weapons. The crucial disagreement centers on whether to adopt a dialogue- and UN-oriented approach to resolve it, as proposed by China, or to impose unilateral sanctions.

For Beijing, Washington's stance on the Taiwan question, which basically boils down to whether it sticks to the one-China principle, matters a great deal when it comes to China-US relations. The Trump administration has acknowledged that both the Chinese mainland and Taiwan belong to one China, but Washington continues to sell arms to and maintain semi-official political interaction with the island. It is important therefore that participants in the diplomatic and security dialogue reach a consensus on addressing each other's core concerns.



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As the world's largest and second-largest economies, the US and China attach as much importance to global issues as to bilateral agendas, in the shared hope that the world order would evolve smoothly without losing its stability. The Washington dialogue is expected to stress the authori-

ty and legitimacy of the UN in addressing regional and global affairs, which is in the interest of both countries and the international community as a whole.

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Maggie Wenjing Liu

Building stronger brands will boost China's image

A country's image or national brand is similar to that of a corporate brand, meaning that each country has a specific image in the minds of international consumers. A nation's brand is comprised of at least three elements: its economic image, political image, and technological image. In the global market, a national brand is taken by consumers as an important clue in assessing the value and quality of a country's products, often outweighing the effects of corporate brands in the judgments of consumers.

China has a few globally renowned brands, such as Huawei and Lenovo, in the top 100 brands according to the global brand consultancy Interbrand. But since the country is commonly viewed as "the world's factory", most Chinese brands have yet to capture the loyalty of foreign consumers. Chinese brands such as Li-Ning and Haier have experienced many challenges in international markets, mainly due to their lack of global marketing expertise and communication skills. Therefore, to help Chinese companies compete in the global competition boosting China's image as a manufacturer of quality goods has become a most significant need.

International consumers often have a negative image of "made in China" products. According to a 2013 survey conducted by a Chicago-based market research agency, only 17 percent of the consumers in the United States indicated interest in products originating from China. Moreover, more than 50 percent of the consumers surveyed were unwilling to purchase Chinese brands as they regarded them as being of poor quality, and associated them with a lack of social responsibility and food scandals.

Other than instilling consumers' confidence in its products, another important part of establishing a nation's brand is forging positive perceptions of its institutions and culture. China's long history, rich culture, and growing economic power add a certain positive dimension to China's brand. However, negative foreign media reports on China's economic practices and presenting China as a threat create a bad impression of China in the minds of consumers in other countries.

The pace at which Chinese products are entering foreign markets has grown steadily over the years. China is already the world's largest

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exporting country and its products are sold all around the world. This indicates that international consumers have a certain degree of faith and interest in Chinese brands. Thus Chinese companies and products can help improve the nation's image and its brand by improving the quality of their products and utilizing their marketing campaigns.

One method of improving China's brand among international consumers is to follow consumer psychology principles in promotions. For example, viewing pictures of ancient Chinese architecture and art can activate a positive country image by associating it with traditional Chinese craftsmanship. This is because ancient China is widely viewed as country with arguably the best manufacturing technology and product quality in olden days, with people coming from all over the world to buy its wares.

Furthermore, developing a nation's brand is the result of cooperative efforts between the government and corporations. Previous studies have found that the establishment of nation's image follows the pattern of product brands, corporate brands, the nation's brand. This means that a nation's image is closely correlated with brand images of its corporations. For example, Spain has used the development of brands such as Zara to successfully grow its brand as a nation.

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2017 is the year with the very first Chinese National Brand Day. It's time to reflect on our strategies for developing and establishing China's brand.

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Richard King

Chinese media's influence growing in 21st century

The public address system calls on passengers to board flights to Chengdu and Guangzhou. Outside shops selling duty-free Chunghwa brand cigarettes, a group of workmen are squatting to eat noodles during their lunch break. In the queue for security check, a businessman is giving instructions on his mobile in accented Putonghua. But he is from Burundi, and this is Addis Ababa airport in 2017.

Ethiopia is one of the most pronounced examples of where the Chinese century is already upon us. It will have an impact on everything; not least the media. To understand the media in the 21st century, we will all, at least figuratively, need to learn Chinese.

Traditional media are already feeling the shift. The international re-launch of CGTN — China Global Television Network — marks a turning point in international broadcast journalism. The network, still known within China as CCTV (China Central Television), is expanding its

international presence. With journalists in more than 70 countries, production centers in Beijing and Washington will be joined by new studios in London and Nairobi later this year.

President Xi Jinping has urged the network to "tell China's story well, spread China's voice well, let the world know a three-dimensional, colorful China, and showcase China's role as a builder of world peace".

Chinese media remains constrained. Yet the tendency to dismiss it as purely a publicity tool underestimates its sophistication. The State Administration of Press, Publication, Radio, Film and Television, is tasked with the supervision of China's television, radio and film industries. It promotes themes within the world's largest media system, such as the Chinese Dream and the "peaceful rise" of China.

From the exposé of the AIDS "epidemic" in Central China's Henan province to the mass corruption case in Chenzhou, Central China's Hunan province, some of

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China's largest scandals in recent years have been uncovered as a result of ferocious investigative journalism. In contrast to the adversarial Western "muck-raking" model, this so-called "watchdog journalism" works closely with the government.

As China continues its expansion across the international media landscape, some of the principles of Chinese journalism are also being reflected in the Western media.

The SAPPRFT has long encouraged what it calls "con-

structive journalism". Better known in the West as "solutions-focused journalism", it is the idea that journalists should move beyond the distorted world view presented by breaking news, and focus on what is working in the world. The BBC explicitly endorsed this positive approach in 2016. New BBC World Service programs, such as *My Perfect Country*, are aiming to solve common problems in countries around the world.

Despite progress, some Western coverage of China itself is still two-dimensional, at best. For example, much of the reporting on the recent Belt and Road Forum for International Cooperation in Beijing recycled decade-old arguments on Chinese neo-colonialism in Africa.

Some in the West have tried harder than others to get to grips with this evolving landscape. In 2014, Mark Zuckerberg conducted a 30-minute question-and-answer session at Tsinghua University in fluent Mandarin, much to the delight of China's engaged netizens.

Many of the disruptive ideas emerging in China's "new media" are world leading. Zuckerberg is not only picking up vocabulary on his visits to Beijing — some of new features of Facebook and WhatsApp are also lessons from ubiquitous Chinese social media platforms such as WeChat and Weibo.

This transformational shift is only just getting started. Last year, China moved up two places in Portland's SoftPower 30 — a ranking of countries' soft power, based on a composite index measuring engagement, culture, government, education digital and enterprise.

As China continues to invest in its soft power assets, we can expect it to rise further up the ranks. Its media will be a key part of this. As the driver of a new era of globalization, international norms in media and reporting will continue to flow from West to East. Businesses and governments will need to learn Chinese. And learn fast.

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