

As ideas migrate from print to digital, opportunities are popping up for an enterprising city, writes **Harry Lewis**

# Bit by bit

In 1994, as the World Wide Web was developing into a commercial and consumer phenomenon, the rock lyricist John Perry Barlow published an article in *Wired* magazine titled "The Economy of Ideas". His point was simple. For centuries we had been buying newspapers and books and magazines. But we didn't really want the paper and glue and staples – the atoms. We wanted the words and stories and ideas. We acquired the physical packaging because that was the only way to get the thoughts it contained. We wanted the wine, and bought the bottle only because there was no other way to get it.

The internet created a new possibility. If we could take the communication infrastructure for granted, what we really wanted could be shipped to us as zeroes and ones – bits – anywhere in the world, instantly and at virtually no cost. No atoms needed. But who then could make money selling just the bits?

Seventeen years later, enough answers are emerging that there is a window of entrepreneurial opportunity for a society

If an e-book company were starting today, it would set itself up in a country with a more favourable tax structure

with the right communications infrastructure, human resources and tax code.

The economy of ideas is relatively advanced in music, thanks to Apple's iTunes store and iPod player. But it surely does not look bright uniformly. Many newspapers stopped printing but could also not make the leap to Web editions, in no small part because classified advertising parted ways with the papers as both moved online.

The world of books has evolved less destructively. Amazon now sells more Kindle books than hardcovers, and competing e-book readers are emerging in pursuit of a share of the profits. But the economics of e-publishing are still changing chaotically. Kindle book prices rose, rather than falling, when Apple entered the tablet market with the iPad.

Of course, there really is no such thing as "selling" or "buying" an e-book. You

can't give your e-copy of John Grisham's latest novel to your friend when you have finished reading it. On the other hand, you also can't lose your e-book; you can lose your reader, but the book conveniently comes back when you replace it.

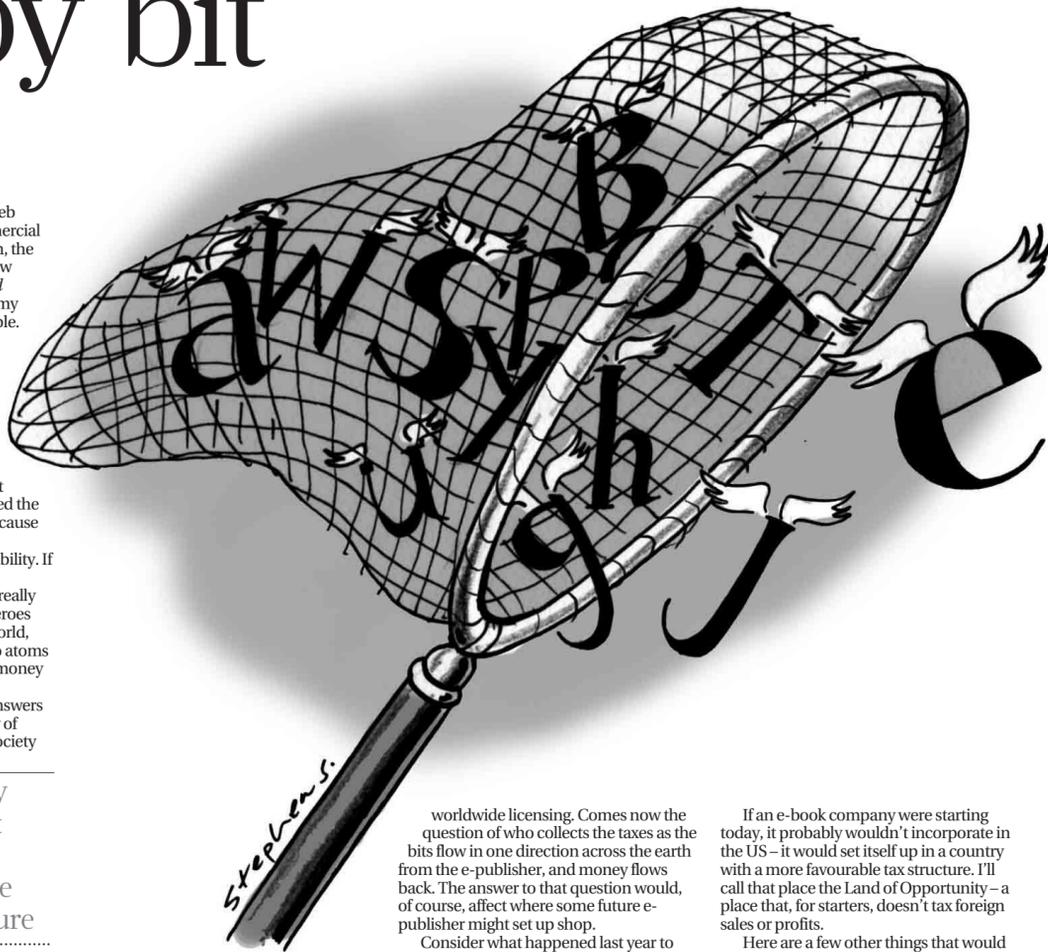
When you purchase a Kindle book, you are really only leasing it, under terms which, disquietingly, allow Amazon to take it back from you. That is exactly what happened to some copies of George Orwell's *1984* (of all things!) when Amazon realised that it didn't have its own licensing paperwork in order with the copyright holder.

Indeed, regional rights management made good sense when different editions were printed and physically distributed in different parts of the world, but it is an anachronistic nuisance when only bits are being distributed. There is no good reason not to have one or more central sources for all the world's e-books, with consistent

worldwide licensing. Comes now the question of who collects the taxes as the bits flow in one direction across the earth from the e-publisher, and money flows back. The answer to that question would, of course, affect where some future e-publisher might set up shop.

Consider what happened last year to Amazon in Japan. Amazon claimed that all of its sales of physical books to Japanese customers were really being made in the US. American businesses don't have to pay taxes in Japan if they don't have offices there. Indeed, Amazon proper had no offices in Japan. But it did have two wholly owned subsidiaries (including one called Amazon Japan), which were selling books to customers and receiving their payments under Amazon's direction. The Japanese tax authorities decided that the local subsidiaries that were shipping books were really branch offices of Amazon, so they billed Amazon some US\$119 million in back taxes.

That made sense, because physical goods were being moved around. But what if Amazon was selling nothing but e-books? An e-book could be delivered to Japan without any local employees or buildings at all. The Japanese tax authorities had a point only because what Amazon was selling there was atoms, not bits.



**Frank Ching**

frank.ching@scmp.com



## Work in progress

The pomp and ceremony of President Hu Jintao's (胡锦涛) visit to Washington was in sharp contrast to his last trip in 2006, when the Bush administration refused to dignify it as a state visit and the welcoming formalities were marred by protocol mishaps.

While in 2006 Hu got only lunch at the White House, this time he got two dinners – a small, intimate one with the American president, Barack Obama, plus two senior officials from each side, and a grand state dinner the following evening.

One American official reportedly said that if the US gives China the face that it wants, then China would be willing to give America what it wants. So far, it appears, the strategy is working. Obama said after the visit that the foundation for the relationship had been laid for the next several decades.

Robert Gibbs, the White House spokesman, said there had been progress in all three key areas – security, the economy and human rights. But he hedged his optimism by saying "they're better evaluated over the course of the long term to see how we set ourselves on the path to making real and substantial progress".

In the area of security, one notable step forward was the Chinese leader's willingness to join Obama in expressing "concern" regarding North Korea's claimed uranium enrichment programme. China was unwilling to condemn Pyongyang for the sinking last spring of a South Korean naval vessel and for the recent artillery attack on a South Korean island.

This new Chinese willingness to be critical of North Korea is likely to make it easier for the eventual reopening of the six-party talks on denuclearisation of the Korean Peninsula. In fact, almost immediately, South Korea expressed a willingness to enter talks with North Korea on military matters. And North Korea suggested that they begin next month. While the road to resumption of the six-party talks is unlikely to be smooth, at least now there is greater room for manoeuvre by all sides.

In the area of human rights, much has been made of Hu's acknowledgement that China "recognises and also respects the universality of human rights" and that "a lot still needs to be done in China in terms of human rights". But there is unlikely to be much change. The foreign ministry, in explaining how China plans to improve human rights, said: "Just as the US is improving its human rights, China is continuously improving its human rights as well, a cause of endless efforts."

On the economic side, while Hu refused to accept American demands for a drastic revaluation of the renminbi, the two sides did announce business deals that Obama said would

generate US\$45 billion in American exports. Moreover, China agreed to scrap its policy of "indigenous innovation", which discriminated against American companies when they compete for big government contracts with Chinese companies.

So the visit was largely successful, halting a serious deterioration brought about by Beijing's increasingly assertive foreign policy in the past year. But what Beijing has hailed as a "new chapter" in the relationship is delicate and needs to be nurtured.

One step China can take is to release Xue Feng (薛峰), an American geologist who was sentenced to eight years in prison last year for gathering commercial data on China's oil industry but who was found guilty of spying and collecting state secrets.

This would be relatively painless for China since Xue is not a dissident and was not involved in domestic political activities.

Hu's remarks on human rights came in a press conference that was very different from the one held when Obama visited China in 2009. In Beijing, the press conference "with Chinese characteristics" consisted of the two leaders reading statements. This time, reporters were actually allowed to ask questions, and get responses. So while Hu was able to revel in all the trappings of a state visit, he had to pay the price of enduring reporters with insistent questions on human rights.

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

## Voices: Hong Kong

# Claws out as parties gear up for electoral change

**Albert Cheng**

The passage of the political reform package has brought drastic changes to Hong Kong's political ecosystem. And the imminent expansion of the Legislative Council by 10 seats will most likely lead to more fearsome political wrestling among various parties.

Any candidate could have a shot at Legco as long as he or she secures around 5 per cent of the votes. This explains why there has been increased infighting and power struggles within many parties. The disagreements have little to do with ideology; it all comes down to vested interests because many fear the electoral reform will disadvantage them. The only party that has remained unaffected so far is the pro-Beijing Democratic Alliance for the Betterment and Progress of Hong Kong.

The League of Social Democrats is finally splitting after months of infighting and bitter rows. Founding chairman Wong Yuk-man and founding member Albert Chan Wai-yip have quit, taking with them hundreds of members who are also displeased with the party chief, Andrew To Kwan-hang.

They have vowed to form a new group, People's Force, to "strive for genuine democracy", and "go after" the Democratic Party by competing with it in the district council elections later this year.

The Democratic Party recently suffered a serious setback with the mass exodus of up-and-coming members and those from the New Territories East branch. Disenchanted members

subsequently formed a new political grouping, the NeoDemocrats.

We also have the New People's Party, an alliance between Legislator Regina Ip Lau Suk-ye's Savantas Policy Institute and former Liberal Party member Michael Tien Puk-sun. The party pledges to focus on building a "quality" democratic system in Hong Kong.

Then we have Civic Party lawmaker Ronny Tong Ka-wah, who is interested in the so-called "super-legislator" seats and may contest the district council functional constituency elections next year. Former Civic Party vice-chairman Fernando Cheung Chiu-hung is also trying to pull together a new grouping while the former founding chiefs of the Liberal Party, James Tien Pei-chun and Selina Chow Liang Shuk-ye, are making a political comeback.

Our electoral rules impose a low ceiling for campaign expenses, prompting many candidates to try to circumvent the regulations. A case in point was last year's sponsorship controversy in which Commercial Radio was accused of allowing the DAB to co-host a community programme to gain publicity. Recently, James Tien was

accused of trying to butter up to potential voters in New Territories East by handing out 600 bowls of free barbecued pork rice.

There is nothing new in political parties using adverts or activities to increase their exposure at election times. We shouldn't blame them for doing this; we should blame the inadequacy of the system. Putting limitations on campaign expenses is meant to provide a level playing field for all, but has inadvertently become the root of unfair competition. So, maybe we would be better off without them.

Speaking of fairness, I would like to say a few words about a recent meeting between Wang Guangya (王光亚), the new director of the Hong Kong and Macau Affairs Office, and pro-establishment legislators. Wang was accused of favouritism by pan-democrats. This is ludicrous. If Wang is not allowed to hold meetings with allies, then with whom should he meet?

Pan-democrats have chosen to be the opposition, so they shouldn't have criticised Wang for not granting them an audience. They should know where they stand in the political arena, or they risk losing their place in the hearts of voters.

Albert Cheng King-hon is a political commentator. taipan@albertcheng.hk

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## Voices: India

# Unlocking access to resources with an ID

**Nandan Nilekani**

Globalisation has brought enormous benefits to India, including fast economic growth. But as India enters the new decade, concern has emerged that recording high growth is no longer enough. Rather, India needs to examine the impact of its economic rise and where it leads. A new initiative by the government to provide identity to all Indian residents lays the foundation of inclusive growth.

India's defining feature has long been its large population. The scale of this population dividend, however, holds both promise and peril. India's infrastructure is working to keep up with the demands of transition, and the challenges are most obvious in the nation's physical infrastructure.

Immense pressure is also building on India's broader social infrastructure. For instance, India has seen millions of new jobs created in manufacturing and construction. But most of the jobs are informal and short term, with no social protections or health benefits.

These challenges of exclusion in the midst of growth have not gone unnoticed by the Indian state. The most dramatic efforts are policy innovations that empower the poor. Among the most ambitious of these initiatives, the Unique Identification project plans to issue identification numbers – or an *Aadhaar*, which means foundation in several Indian languages – to India's residents.

This initiative is unprecedented in scale, covering 1.2 billion people, and technologically intensive – the *Aadhaar* number will confirm an individual's identity anywhere in the country in real-time. An *Aadhaar* number will link to a central

database, which contains the resident's name, gender, address, date of birth and biometric data.

The key impetus behind this project is to address the exclusion so widely visible in India. A fundamental cause of exclusion – for informal workers, migrants, backward groups, and women and children – is lack of identity rights. A migrant labourer working in the construction industry interviewed by the *Aadhaar* team mentioned his difficulty in opening a bank account, since he lacked proof of a local address. Migrants face similar challenges accessing housing, employment and public services.

Without identity rights, it becomes difficult to create human capital, as residents cannot easily establish trust in their identity and guarantee who they are in order to access services and resources needed to build skills and find employment.

Identity infrastructure could broaden benefits to those long excluded – by making education skills and training easily available to many more in India.

With *Aadhaar*, India has the chance to mirror the success of the IT industry across the economy – empowering residents to compete, take risks and participate in global markets. This, in turn, would give them the opportunity to develop know-how, consolidate efforts and innovate on their own to contribute to the global economy.

Nandan Nilekani is chairman of the Unique Identification Authority of India, and former chief executive of Infosys. The article represents his personal opinion. Reprinted with permission from YaleGlobal Online. http://yaleglobal.yale.edu

## Voices: Economy

# Overpriced assets could stall new growth engine

**Otaviano Canuto**

While the rich world puts its post-crisis house in order, developing countries as a whole are becoming the new engine of global growth. Increasingly, they are a force pulling the advanced economies forward. But switching locomotives is never free of risk.

As my colleague Marcelo Giugale and I argue in our recent book *The Day After Tomorrow*, there are at least four tracks along which this switcher is taking place. First, public- and private-sector balance sheets in most emerging economies are relatively clean. While deleveraging is ongoing in advanced economies, many developing countries will be able to explore untapped investment opportunities – infrastructure bottlenecks being a glaring example.

Second, there is a large inventory of technologies that the developing world is yet to acquire, adopt and adapt. Thanks to breakthroughs in information and communications, transferring those technologies is becoming cheaper and safer.

Third, a flipside of the emergence of new middle classes in many emerging markets is that domestic consumption and investment in developing countries as a whole may rise relative to their own production potential.

Finally, resource-intensive developing countries may benefit from strong projected relative demand for commodities in the medium term.

Most developing countries were already moving along these four tracks before the financial crisis.

There is, however, a major threat to a smooth transition to new sources of global growth: the

possibility of overshooting in the inevitable asset-price adjustment accompanying the shift in relative growth prospects and perceptions of risks.

Indeed, because the creation of new assets in developing countries will be slower than the increase in demand for them, the price of existing assets in those markets – equities, bonds, real estate, human capital – are likely to overshoot their long-term equilibrium value.

So what should developing countries do, aside from maintaining sound macroeconomic policies, curbing excessive domestic financial leverage and attempting to isolate themselves from volatile capital inflows?

The most important task is to facilitate and strengthen the creation of new assets. Developing nations can take advantage of the current bonanza in available capital to build contestability, transparency and institutional quality around markets in which greenfield investments can be implemented. They can ensure that their rules are consistent and favourable to funding investment projects with long maturities. And they can invest in their own capacity for project selection and design.

These and other internal reforms would serve to moderate the furious rise in the price of developing-country assets. For that reason, they also constitute the best way to ensure that the next locomotives of global growth – and all the economies that are pulled by them – remain on the rails.

Otaviano Canuto is the World Bank's vice-president for poverty reduction and economic management. Copyright: Project Syndicate