

## Common ground

**Robert Lawrence Kuhn** looks to a time when China takes a leading role in foreign affairs, working alongside the US to achieve peace and stability from a position of moral authority

I have a dream that, in a future Syria-like crisis, the US and China will be arm-in-arm allies, working together to convince others of the high-minded rectitude of their joint initiative to maintain peace and enhance prosperity. It is a dream, in truth, that would benefit China and the world – yet it is a dream, in reality, that China-watchers would dismiss as a “pipe dream”. Pessimism prevails, which is why China-US disputes over Syria are worth examining.

The spectre of US military strikes in Syria to punish the Assad regime for egregiously gassing its own citizens exposed fault lines between China’s and America’s perception of the world. A Foreign Ministry spokesman said: “China is firmly opposed to the use of chemical weapons by any party in Syria and expresses serious concern about preparations by relevant countries for unilateral military action.”

It is a carefully worded statement: China condemns the obvious evil, avoids ascribing blame, and tweaks the US for preparing “unilateral military action”. The second and third points critique the US; the second subtly, the third overtly.

At the G20 meeting, President Xi Jinping (习近平) said: “A political solution is

**China becomes a leading nation by asserting, not resisting, moral leadership**

the only right way out for the Syrian crisis, and a military strike cannot solve the problem from the root. We expect certain countries to have a second thought before action.”

“It is appalling,” asserted a *New York Times* editorial, that “Russia and China have not been the focus of international outrage and pressure.”

There are four deep reasons why China opposes US military action against Syria. First, China has a long-standing, consistent, absolute policy of opposing all cross-border interventions of any kind and under any circumstance. China harbours an anxiety that if they are permitted – especially those seeking regime change – some day, interventions could be used against China itself. While foreigners may dismiss such an extreme scenario, China remembers its “century of humiliation” when it

was invaded, occupied and oppressed by Western nations and Japan.

The second reason recognises that China is a developing country with a huge and uneven population, and in order to maintain social stability it must continue to grow its large but fragile economy. Growth requires natural resources, especially oil, and because these resources are often found in countries whose political systems are autocratic – even dictatorial – to be judgmental is deemed not to be in China’s interest.

The third reason is that military intervention is inherently destabilising and for China to maintain its economic development it needs stability. Worse, destabilisation in the Middle East would drive up the price of oil, which China imports in increasing abundance, thus constraining growth and stimulating inflation.

The fourth reason is that the US usually takes the lead in cross-border interventions and China feels threatened when US power expands.

Yet, in justifying its opposition to military force, China must seek other rationale. At first, some in China said proof was needed that chemical weapons were used. Then they questioned whether Assad’s government was responsible. Then the *People’s Daily* called the US reaction to chemical weapons “making a big fuss”. No wonder, then, amidst the confusion of the Russian proposal to put Syria’s chemical weapons under international control, China was a quick and eager supporter.

I believe it is in the national interests of China and the US to work together such that their foreign policies begin to converge. Surely there are nationalistic issues, and conflicts can compound when parochial media pontificates on disputed borders. But border disputes do not determine national wealth, and national dignity should not be measured by maps. The real achievements of nations – increasing citizens’ standards of living – are not the zero-sum games of jousting over slivers of land or sea but are the synergistic accretions of advanced education, knowledge creation, technology utilisation and business entrepreneurship.

Both the US and China should shift their ways of thinking. The US should come to see China without the distorting lens of old history and the cold war. Today’s China has no interest in trying to change the world.

So how to modernise China’s four reasons for opposing military intervention to stop genocide? First, while Mao Zedong’s (毛澤東) China might have worried legitimately about international intervention, today’s China need not. Today’s China is



vastly different, having delivered the greatest improvement in standard of living to the largest number of people in history.

Second, while China may derive short-term economic benefits from dealing with dictators, those who oppress their own people are inherently precarious, and China can suddenly find itself on the wrong side of history, as it did in Libya. China’s sophisticated policy thinkers are beginning to appreciate these socio-strategic realities.

Third, China should desire, above all, long-term stability – in international economics in general and in the price of oil in particular, especially as the country is becoming more dependent on imported energy. Rescuing sufferers from tyrants enhances long-term stability.

Fourth, for China not to view the US as its adversary, Washington will have to accept that Western democracy may not be ideal for all nations at all times. It must appreciate that China must continue to determine and develop its own system.

In my dream of a post-adversarial world, China would assume increasing responsibility for world peace and prosperity, which would include challenging wicked regimes that trouble their own people. In seeking the moral optimum, China may have to tear up old scripts.

For its part, the US should reject the cold-war mentality of “containing China”. Of course, there would remain areas of contention, but different political systems

should not be one of them. Rogue regimes are no friends of China. That these countries cause problems for the US – and hence, according to some Chinese, keep the US off-balance and divert it from pressuring China – is yesterday’s strategy. In the contemporary world, the real conflict is not between opposing political or economic systems but rather between the forces of modernity, competence and development and those of ignorance, incompetence and oppression.

China becomes a leading nation by asserting, not resisting, moral leadership. To intervene across national boundaries requires an extremely high standard of a sovereign government committing atrocities, maiming and murdering its own people. In such circumstances, I look to a time when China will share responsibility in leading global relief.

I do not advocate that China follow the US; it must pursue its own self-interests, which stress improving standards of living and its increasing prominence and prestige among the community of nations. To secure the former, China requires international stability. To enable the latter, China must have the moral high ground.

I have a dream.

Robert Lawrence Kuhn has long-time relationships with China’s leaders and the Chinese government. He is strategic adviser to multinational corporations and the author of *How China’s Leaders Think*

## Universal right

**Hugo Swire** says the transition to universal suffrage can ensure Hong Kong’s stability, and it is vital that people have a genuine choice in 2017

Tomorrow is the sixth annual International Day of Democracy. Supporting the strengthening of democratic institutions is at the core of Britain’s foreign policy, and as minister of state for Asia, I wanted to mark the occasion by setting out why I think that the transition to universal suffrage is in the best interests of Hong Kong, and vital to its future stability and prosperity.

In 2007, the UN General Assembly decided to observe on September 15 each year the International Day of Democracy. As the UN has noted, “democracy is as much a process as a goal, and only with the full participation of and support by the international community, national government bodies, civil society and individuals, can the ideal of democracy be made into a reality to be enjoyed by everyone, everywhere”.

In Hong Kong, informed by our long, shared history, the UK takes its commitment under the Sino-British Joint Declaration very seriously. This guarantees Hong Kong’s high degree of autonomy, basic rights and freedoms, the observance of which the UK takes an active interest in. So I welcomed Chief Executive Leung Chun-ying’s undertaking during his inaugural policy address to “promote and achieve the ultimate aim of universal suffrage in accordance with the provisions of the Basic Law and the relevant decisions of the Standing Committee of the National People’s Congress” and to “launch a comprehensive consultation on the election methods” for these ground-breaking elections.

It is encouraging to see the enthusiasm with which many groups and individuals in Hong Kong are engaging on the shape of electoral reform. Their views will be invaluable as the government prepares its proposed public consultation on future options.

What democracy with universal suffrage in Hong Kong will look like is, of course, for the governments of Hong Kong and China – and the people of Hong Kong – to decide in line with the Basic Law. There is no perfect model anywhere in the world, but the important thing is that the people of Hong Kong have a genuine choice to enable them to feel they have a real stake in the outcome. This is no easy undertaking, but then few things worth having are.

Dialogue and co-operation between all parties will be vital for a smooth resolution of this important issue. And, of course, Britain stands ready to support in any way we can.

But it is not just because of my belief in democracy as a universal right that I am a supporter of the transition to universal suffrage. Certainty over Hong Kong’s constitutional future is also important to business and investor confidence in Asia’s leading international financial centre. The city is home to around 1,000 British businesses, many of which have made Hong Kong their regional hub.

Like many others in the international community, the UK therefore has a big economic stake in seeing Hong Kong continue as the prosperous, stable and energetic centre that we see today.

It is a good time to remind ourselves that universal suffrage can help ensure that outcome among many, many others. Democracy is vital for our future prosperity, and it is the glue that holds us together. Its importance in the world cannot be overstated.

Hugo Swire is UK Minister of State at the Foreign and Commonwealth Office

## Financial crisis highlights the need to focus on ‘real’ side of the balance sheet

**Andrew Sheng** says the solution to financialisation is not more debt, but structural reform

The failure of Lehman Brothers on September 15, 2008 marked the beginning of the end of the world’s love affair with financialisation, one of three mega trends that has swept the world in the past 30 years – the others being free markets and globalisation.

Financialisation is defined as the growing importance of finance in daily activities, both at national and global levels. The effect has been massive credit creation and financial turnover in terms of scale, speed and geography that has turned finance into a power in its own right.

The dream was that financial innovation was creative, supported economic development and contributed to global market efficiency. The outcome was a massive bubble, inflated by hidden leverage and a collapse requiring massive public sector bailouts, from which the world has yet to totally unwind.

Finance theory taught that risk is best diversified, but geographical diversification through globalisation disguised the fact that everything was interconnected and became more and more co-related. Borderless finance meant that no firm, no country, was an island. The failure of one hub, like Lehman, led to a cascading failure across the board.

Financial supervisors were the convenient scapegoats, for a lack of supervision, or oversight of the shadow banking-banking nexus. No one noticed that massive credit was being

generated below the line, moved off the balance sheet to special investment vehicles or totally offshore.

Because it was a systemic crisis, no single banker, regulator or anyone was held personally accountable. The ensuing public anger was assuaged through massive regulations and rules as a substitute for action. The two key responses were to fight financialisation with more

**Flirting with finance diverts attention from what really matters – the real economy**

financialisation through quantitative easing and fight complexity with more complexity, meaning new rules. After five years of QE, a strong global recovery remains elusive.

If we agree with Nomura’s chief economist, Richard Koo, that the global financial crisis is a balance sheet crisis, then financialisation has focused on the wrong side of the balance sheet. As one wise cynic reminded us, it was a crisis where, on the right side of the balance sheet nothing was right, and on the left side, nothing was left. While it is understandable that QE was a “tool of last resort”, the printing of more central bank debt to prevent the

bubble deflation was to use more debt to cure debt, sustainable only under lower and lower interest rates.

The threat of tapering means that if real interest rates rise, the current asset bubbles and value of sovereign debt will deflate, causing more huge losses and forcing central banks to again print more money. Real interest rates are rising despite the fact that QE is holding the so-called risk-free rate low, because the market perceives that risks and uncertainty are rising.

In other words, if the core of the problem is the asset or real side of the balance sheet, you can only deal with it through structural reform. You need to deal with the quality of assets, not the quantity of liability. You need to deleverage not by inflating the debt, but by increasing the quality of equity.

As Nobel Laureate Joseph Stiglitz shrewdly observed, the heart of the problem of financialisation has been the growing inequality of income and wealth. The negative side of financialisation is that the global financial system is turning over faster and still concentrating, with an increasing maturity mismatch.

First, trading in foreign exchange markets averaged US\$5.3 trillion per day in April this year, 60 per cent higher than in April 2007. Most of the trading is between financial institutions.

Second, concentration in the financial sector is still increasing. Financial Stability Board (FSB) data on the top 28 globally systemically significant financial institutions showed that their

assets rose to US\$45.4 trillion, or 63.3 per cent of 2011 world gross domestic product, compared with 47.7 per cent in 2002.

Third, FSB data from 2011 showed that roughly 80 per cent of the financial system is financed with short-term liabilities, but world demand for long-term mortgages, sovereign debt and infrastructure funding is rising.

Hence, the solution to unsustainable financialisation is not more debt, but more equity, or the net worth of real sectors – households, enterprises and the government sector. That has to be generated through real-sector reforms – the asset side of the balance sheet.

The real lessons from Lehman are therefore about the need for rebalancing: moving away from short-termism towards long-term financing of the real economy; promoting the quality of assets that contribute to GDP growth; addressing social inequality by increasing access to financing; and funding infrastructure development to sustain long-term growth.

Flirting with finance diverts attention from what really matters – the real economy. The focus should be on real people, not more pieces of paper.

Andrew Sheng is president of the Fung Global Institute

**> CONTACT US**  
Agree or disagree with the opinions on this page? Write to us at [letters@scmp.com](mailto:letters@scmp.com).

If you have an idea for an opinion article, email it to [oped@scmp.com](mailto:oped@scmp.com)

## Country park vandalism not the way to solve housing problem

**Stephen Vines** doesn’t trust landowners to develop any areas sensitively

Politicians and bureaucrats have an uncanny ability to solve one problem by creating a bigger one elsewhere. We must thank development minister Paul Chan Mo-po for providing a classic example of how this can be done.

He has suggested that a good way of tackling the housing shortage would be to whittle down the country parks, one of Hong Kong’s greatest treasures. Unsurprisingly, Lau Wong-fat, the head of the no-village-is-too-small-to-ruin Heung Yee Kuk, was quick to offer his support.

Lau is a big-time property player in the New Territories and Chan’s own property dealings suggest he was an active player in this market and may well confuse the concept of land with that of property.

Chan and Lau see this issue primarily through the eyes of property traders who believe there is a land shortage. That myth has been demolished elsewhere but there may indeed be a shortage of property development opportunities, which is quite another matter. Even if this is so, who in their right mind believes the best way to improve housing opportunities is to destroy our country parks? Unfortunately, the destroy-to-improve mentality has persistently afflicted government officials and explains why so many of the city’s historic buildings and landmarks have disappeared.

The case for the country parks is pretty self-evident but worth repeating.

First up, the parks provide a vital lung for a very crowded city

that needs a place to breathe. Secondly, the proximity of the parks to the built-up areas means they are accessible to everyone and the number of visitors is growing. Thirdly, the preservation of these areas ensures the preservation of the environment. Fourthly, and here we are on ground that Chan and his friends would probably ignore, there is an aesthetic question. The parks offer

**They will slash and build without the slightest regard for the environment**

brehtaking natural beauty and as the seasons change they change in exciting ways.

This does not mean adopting an absolutist position when looking at the future of the parks. There is indeed scope inside these areas for some limited development, and although Chan does not seem aware of the reality on the ground, some quite big areas within the country parks are excluded from their boundaries.

Members of the kuk control much of the land in the parks and other land parcels have been acquired by property developers. If, for one nanosecond, anyone believes that these landowners have the

interests of the countryside at heart, now is the time for a reality check. The record shows that, given half a chance, they will slash and build without the slightest regard for the surrounding environment.

This is not to say that a limited amount of housing and recreational facilities cannot be built in these areas. The issue is how much and what kind of development is suitable. It’s not that all development in the country parks should be taboo but that the people who own the land and the supine government officials who strive to keep them

inside cannot be trusted to engage in appropriate forms of development. Maybe Chan’s friends in the kuk are egging him on to declare that the housing problem can be tackled by engaging in an act of environmental vandalism and have persuaded him that they can offer political support in ways that make destruction of the countryside a price worth paying.

The chief executive has now put a former policeman in charge of the body overseeing the country parks and even before taking office he was equivocating over whether they need to be protected.

Since Chan’s views were publicised, the government has suggested he was only “testing the water”. If so, let’s make sure the test comes up negative because, as matters stand, the price of conserving Hong Kong is eternal vigilance.

Stephen Vines is a Hong Kong-based journalist and entrepreneur