

INSIGHT

A different pattern

Robert Lawrence Kuhn suggests the use of new mental frameworks to shake up tired thinking about the issues that trouble Sino-US relations, so that workable solutions may be found

This week, the fifth round of the US-China strategic and economic dialogue is being held under all-new co-chairs: US Secretary of State John Kerry and Secretary of the Treasury Jack Lew, and China's State Councillor Yang Jiechi (杨洁篪) and Vice-Premier Wang Yang (汪洋). While presidents Barack Obama and Xi Jinping (习近平) developed some personal rapport at the recent Sunnylands summit, the issues of contention between the incumbent superpower and the emergent one remain vexing. Will anything now change?

Look at the list: undervalued currency (manipulation), trade imbalances, cyber-espionage, industrial stealing, territorial claims, border disputes, North Korea, Iran, Syria, resource competition, product dumping, market protectionism, state-owned enterprise monopolies, pollution, global warming, poor intellectual property protection, little rule of law, worrisome nationalism, military opacity, media control, Tibet, Xinjiang (新疆), religious freedom, human rights – and so it goes.

Each side believes all issues are equivalent in the sense that, for each, “we are

North Korea, Iran and Sudan. China is a mercantile predator that keeps its currency artificially low to boost exports and steal jobs, they say, and allows hacking and industrial theft.

Moreover, China's authoritarian government abuses human rights to maintain party control, and its mounting military power, especially its modernising blue-water navy, betrays expansionist ambitions.

In China, America-bashers believe the US seeks to “contain China” and thwart its historic resurgence. This is the real reason America supports Taiwan – not as a worthy democracy, but as an “unsinkable aircraft carrier” with which the US can threaten China while keeping the motherland divided. They see America encircling China via military alliances with South Korea, Japan, Taiwan, the Philippines, Vietnam and India; forcing open China's markets to control its industries and exploit Chinese consumers; restricting Chinese companies operating or acquiring in the US; hacking into China's computers and sending spy planes to patrol its shores; fomenting “extremism, separatism and terrorism” in Tibet and Xinjiang; and injecting Western culture to overwhelm Chinese culture, eroding China's independence and undermining its sovereignty.

How to deal with such sweeping, invidious suspicions? The normal way is to array issues of contention by content categories – economics, diplomacy, military, reform, and so on. But the normal way hasn't worked very well.

Failure should engender change. So, here are two alternative ways of thinking about US-China issues, to provide fresh perspectives for viewing issues and novel ways for addressing them. One way is to array issues of contention by their strategic and emotional “valencies” (powers), irrespective of their content. So, issues of high strategic and low emotional importance to the US would be Iran, North Korea and territorial claims; and currency and resource competition to China.

Issues where both are high would include cyberespionage and undervalued currency for the US; and Taiwan, Tibet and territorial claims for China.

Issues where both are low would be global warming for the US; and intellectual property rights for China.

Issues that are of low strategic importance but carry emotional weight would be human rights and religious freedom for the US; and border disputes for China.

If it is not obvious into which category each issue should be placed, this counts for, not against, the efficacy of the method.

The normal way is to array issues by content categories. But that hasn't worked very well

right; they are wrong – we have the facts, know the truth, hold the moral high ground”. “Negotiations”, then, become a euphemism for coercing the other side to bend to its will.

Part of the problem is that the list is a jumble and whatever's hot at the moment – cyberespionage of late – leaps to the top.

Better, perhaps, is to consider issues in sets, linking and playing them via common characteristics. Might more sophisticated, sensitive policies emerge?

As a backdrop, some honesty: here's what many on each side, deeply suspicious of the other, really think.

In the US, China-bashers believe China, playing by its own rules, is a looming political and military challenger, an economic superpower whose opaque intentions are intimidating. China acts solely in its own interests, critics argue, even to the detriment of the international order – for example, supporting rogue states like



The more policymakers consider the strategic and emotional valencies of issues of contention, the more they will gain insight into the essence of issues. For example, high emotional issues are generally handled best when shielded from public glare. Alternatively, by pressing on low-strategic, high-emotional issues, but then conceding them in an implicit trade-off, progress may be made on high-strategic, low-emotional issues.

Another way is to array issues of contention by adversarial-complementary “vectors” (directions) and means of optimum actions.

Consider four categories from the US perspective: adversarial/must appreciate (Taiwan, Tibet, human rights, media control, military opacity); adversarial/can ameliorate (cyberespionage, undervalued currency, trade imbalances, border disputes); complementary/different means (North Korea, global warming, pollution, intellectual property rights, rule of law); complementary/similar means (disease control, clean technologies, terrorism, organised crime, drug trafficking).

How can such vectors inform policy? By differentiating, say, North Korea, where the US and China have complementary goals (denuclearisation and stability), though using different means to achieve

them, from, say, trade imbalances, where US-China positions are naturally adversarial, though can be ameliorated, subtle differences can enable artful suggestions.

How can fresh takes on US-China issues facilitate negotiations? Take two classic styles: solve one problem at a time, starting with easier ones, so that when one encounters hard problems, the landscape is simplified and both sides are prone to compromise; or solve all problems in parallel, not in series, thus retaining the leverage of using simple problems to solve hard problems.

But neither style targets the essences of bilateral issues, and thus both may miss clues or pathways.

When the next crisis in US-China relations hits, as it must, a better idea for breakthroughs are frameworks that exploit “valency and vector” (power and directional) relationships among issues of contention, thus enabling policymakers to become more astute in analysing multiple issues and more nuanced in their synchronised negotiations.

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Capital flight

Victor Fung Keung says among the many wealthy Chinese who seek to emigrate, there are surely some who are crooked. They must be stopped

Many middle-class people in Hong Kong work hard, create wealth for themselves and contribute to society's well-being. Not without reason is the city admired as the Pearl of the Orient. People have a sense of belonging. But when we look at mainland China, it is a different story.

Many wealthy Chinese are leaving the country in droves. Take, for example, the EB-5 US Immigrant Investor programme that offers foreign investors the possibility of becoming permanent residents. In 2011, 41 per cent of all visa recipients were Chinese nationals; and they accounted for a staggering 80 per cent of all visas issued in the year ending June 30, 2012. (The European Union, Australia and Hong Kong offer similar immigrant-investor programmes.)

Beijing shouldn't just sit idle. It is time leaders did something about this. On the one hand, we should respect, and insist on, mainlanders' right to travel and emigrate, among other freedoms. But on the other, the government must keep an eye on suspicious cases, particularly those that might involve money-laundering.

Since Deng Xiaoping's (邓小平) fabled “southern tour” in 1982, Beijing has implemented many liberal policies to stimulate the economy and enhance the living standards of the Chinese people. Many Chinese have become rich as a result. Sadly, in recent years, many have chosen to transfer their assets, as well as their children, to the US (and elsewhere).

America's EB-5 programme requires foreigners to invest US\$1 million in projects in designated areas that can create at least 10 full-time jobs for Americans. If potential emigrants pour money into rural areas or districts with high unemployment rates, their investment limit may be lowered to US\$500,000.

Analysts say many potential mainland emigrants are attracted by living conditions in the US, its advanced education system, welfare resources and huge business opportunities. The majority of the mainland applicants are aged between 40 and 45, according to analysts. These people are the pillars of society.

About 20 per cent of all mainland applications were rejected, nevertheless, because the applicants failed to prove their income was legally obtained, immigration consultants say. The EB-5 programme requires a clear illustration of the relationship between the money and investors, and demonstrations that the money was acquired in a lawful manner. In short, no corrupt money is allowed.

Given the rampant corruption on the mainland and business malpractices, it should surprise nobody that some of the wealth accumulated by potential emigrants was not obtained legally. The Chinese government should start investigating those applicants who fail to meet the US requirements and find out how they amassed their fortunes. This “problematic money” should be spent on creating jobs for mainlanders.

No doubt, many middle class mainlanders are seeking to improve their lives by choosing to leave their homeland. But allowing corrupt officials and unscrupulous entrepreneurs to flee with millions of dollars is a huge mistake. Keeping quiet and doing nothing would send the wrong signal to law-abiding citizens.

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3.23 trillion reasons to get China's fiscal house in order and its economy going

China's financial markets may be facing a liquidity crunch, but the government has a pile of money sitting idle. Not for long, though, if Chinese leaders get their way.

The State Council pledged last week to make better use of the fiscal revenues, a move which, if successful, will not only help reinvigorate the economy but also provide a major filip to reform.

China is under tremendous budget pressure. In the first five months of the year, central government revenues grew by only 0.1 per cent, 6.9 percentage points off its target for the year. The combined local and central government revenues for the same period similarly fell short, growing by 6.6 per cent.

Of course, budget problems are to be expected in the wake of a financial crisis. But, this time, with economic growth slowing, spending is also skyrocketing; hefty investments are needed for social security, low-income housing and environmental conservation, among others.

The Chinese government is by no means poor. Its fiscal revenue deposits in the central bank reached 3.23 trillion yuan (HK\$4 trillion) by the end of May. This does not include the hundreds of billions it deposited with commercial banks.

The root cause of this ballooning stash is bureaucrats' self-serving mentality. Government departments regularly ask for much more money than they actually need. This is why, near the end of the budgetary year, we see officials spending money as hard and fast as they can. Even so, what's left over has accumulated into no small mountain.

Hu Shuli says the government's pledge to make better use of its accumulated revenues must end in an overhaul of the budget system



It's common economic knowledge that the government does not create wealth. Instead, it takes a share of the people's wealth through taxes and fees. In a rule-based society, a sensible fiscal budget benefits all. But, in China, tax rates are almost as high as those in some developed economies, and money is

Money is taken out of private hands, where it could be more productive, to gather dust

ludicrously taken out of private hands, where it could be more productive, to gather dust in a bank vault.

This is a double loss – loss accrued to the person or company who has to give up the money, and the opportunity cost. That businesses are asked to pay hefty taxes as they agonise over a lack of capital feeds market jitters behind the liquidity crunch. This unhealthy relationship must end.

The government's resolve to act is commendable. Putting the tax revenues to better use will go a long way towards helping the economy achieve sustainable

growth. Given the lacklustre pace of revenue growth so far, fiscal income must now grow at an average of 13.3 per cent for the rest of the year to meet the target. And this inevitably means aggressive tax collection, which will add to the already heavy burden of small and medium-sized enterprises and worsen unemployment. Thus, the government must make better use of its deposits, and push on with its plan to replace business tax with a value-added tax, so as to lower the overall tax burden and stimulate growth.

The government must set some targets. For example, it might target using 20 to 30 per cent of the 3.23 trillion yuan at its disposal to ease the current shortfall. Next, it could even reset the revenue growth target to zero. This would give businesses a much-needed breather and the economy the chance of an upgrade.

According to the State Council's own plans to promote stable growth, rebalance the economy and protect livelihoods, there is already plenty the extra money can do. But before the money can be used, the government must first thoroughly review local government finances. Money that is owed to taxpayers and companies should be paid as soon as possible, while any transfers that are distributed through the departments must also be paid on time.

The government must ready itself for battle. Departments that have no problem taking money will certainly put up a fight when asked to give it back, especially those offices controlled by entrenched interest groups and influential party committees.

Nevertheless, the government is right to seek to balance the rights and responsibilities of those in power. It will be a huge test of the leaders' ability to govern.

In this context, the State Council must be held to its pledge to review work plans and impose the necessary changes, strictly and in a timely fashion. The public and the media should act as a watchdog and monitor progress.

The existence of such a huge pool of unused revenue also points to poor budgeting and poor supervision, as well as problems in China's fiscal administration and decision-making model. Reforms in these areas have not been rolled out despite years in the planning. They should be on the agenda of the reform blueprint that is expected to be unveiled at the third meeting of the Communist Party's Central Committee later this year.

Any major reform can't be undertaken rashly. But, by showing its determination to put the budget revenues to better use, the government has given us hope that things will get better.

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Sino-US relationship must serve the cause of peace

Yang Jiechi says effective co-operation will spur agreement at talks

In early June, President Xi Jinping (习近平) and President Barack Obama had eight hours of no-necktie meetings in California in which they outlined their vision of China and the US working together to create a new model of major-country relationships.

In the more than 40 years since China and the US re-engaged, their interests have become increasingly interwoven. Today, there is a flight between the two every 24 minutes, and about 10,000 people are travelling across the Pacific every day. About 194,000 Chinese are studying in the US, and there are 26,000 American students in China.

Our two economies account for one-third of the global economy, our two peoples one-quarter of the world population and our trade volume one-fifth of the global total.

Sino-US co-operation has delivered real benefit to our peoples. Inexpensive and high-quality Chinese goods have proved popular with American consumers. The vast Chinese market offers great opportunities to US companies.

In 2012, nearly 70 per cent of the US companies operating in China made profits, according to a survey of its members by the American Chamber of Commerce in China, and 40 per cent of them reported higher profit margins in China than their global average. The more than 1,500 McDonald's outlets in China have outperformed other McDonald's outlets in the world.

Meanwhile, Chinese investment in the US has helped

boost the US economy. The West Basin Container Terminal of China Shipping in California, for example, has created nearly 10,000 local jobs.

Co-operation has promoted peace, stability and development in the Asia-Pacific region and beyond. Our two countries have carried out effective co-ordination on a wide range of topics, including the Korean and Iranian nuclear issues. We have co-ordinated responses to global challenges such as counterterrorism, non-proliferation, climate change, cybersecurity and the international financial crisis, and worked together to promote global economic recovery. All this shows bilateral co-operation is an anchor for world stability.

China is deepening its comprehensive reforms and opening up. In the next five years, overseas investment will reach US\$500 billion, Chinese imports will exceed US\$10 trillion and the number of its outbound tourists will surpass 400 million. This will create bright prospects for co-operation. Both countries should seize the opportunity.

China is committed to promoting world peace, development and win-win co-operation for all. China's development poses no threat to any other country. China stands ready to assume greater responsibilities commensurate with its role.

As China and the US differ in their histories, culture, traditions, social systems and stage of development, it is natural that there are

differences. But both countries have ample wisdom to manage their differences and frictions. What is most important is that we follow the course charted by the two presidents, blaze a new trail that is different from the traditional path of conflict and confrontation between great powers, and work together to build a new model of major-country relationships based on mutual respect and win-win co-operation.

This week's China-US strategic and economic dialogue is an important platform for conducting high-level communication on long-term, strategic and overarching issues. The main task is to implement the extensive agreement reached at the presidents' meeting, deepening dialogue and co-operation and advancing a new-model major-country relationship.

The previous four rounds of dialogue produced more than 340 points of agreement on a range of issues and 11 outcome documents. I believe that, with a joint effort, this round will lead to agreement on more issues and produce more concrete outcomes, and boost our efforts to open a new chapter in cross-Pacific co-operation.

Yang Jiechi is a state councillor of the People's Republic of China. Copyright: The Washington Post

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