

# Discord in Asia

**Andrew Leung** says the re-emergence of China as a world power is changing regional dynamics that have long featured a strong US presence; now, each must find a way to accommodate the other

For decades, the South China Sea has enjoyed relative calm, despite occasional territorial disputes. This has so far depended on a predominant US military umbrella under which regional states thrive in a China-centric global production-and-supply chain. This stability has now been disturbed on several fronts.

First, China views the South China Sea as assuming ever-increasing strategic weight. China has long-standing historical territorial claims over certain islets and atolls and a consequential large swathe of the South China Sea, demarcated by the controversial U-shaped "nine-dashed lines". Situated in these waters are sea lanes vital for economic survival, as well as huge potential energy reserves. China's rival territorial claimants have now become more assertive with their claims, resulting in recent high-sea stand-offs.

Over the years, China has been building harmonious relations around and beyond its periphery. It signed the Treaty of Amity and Co-operation of the Associa-

**A purely military strategy is fraught with uncontrollable risks that may escalate into war**

tion of Southeast Asian Nations in 2003. With the launch of the Asean-China Free Trade Area, the "Asean way", based on consensus and equality, has been gaining traction. But this mutually beneficial harmony is now showing signs of strain.

Second, there is growing US-China military rivalry. China is starting to build a blue-water navy with the commissioning of a first aircraft carrier. US strategists are also becoming alarmed by China's advances in mobile "aircraft-carrier killer" missiles and in cyber-warfare and space technologies, among others.

To counter China, the US military is reported to be planning a major expansion of radar missile defences in Asia. Concurrently, the Communist Party-run *Global Times* reported that China was developing a long-range, nuclear-capable, multiple-warhead ballistic missile that could potentially overcome US anti-missile defences.

Third, there is a looming split in the US-China symbiotic economic relationship. America is now feeling the pain of out-

sourcing jobs to China. It is alarmed by excessive debt-driven consumption financed by China's largesse in American treasuries. On its part, China is wary of over-reliance on exports and the folly of tying up too much savings in a "US dollar trap". Moreover, a prevailing "China threat" has resulted in unease and mistrust, if not paranoia.

These regional fault lines therefore call for a rethink for a more sustainable Asian order.

It must first be appreciated that with daunting domestic challenges, China needs a stable and peaceful international environment to progress. Following Deng Xiaoping's (鄧小平) advice, China would be loath to seek leadership before becoming fully developed. Moreover, as China's economic welfare and national security continue to depend on integration with the world order, it is in China's interests to behave as a responsive great power.

China has therefore been operating within, and stands to benefit from, a stable regional order largely underwritten by the US. While a rising China can no longer unreservedly accept America's dominance, it would not be in China's best interest to dislodge the US from the Asian region, even if China were able to do so. Seen in this light, China's rise in Asia need not be at America's expense.

Additionally, in an interconnected and interdependent world, America's capacity to lead has become more constrained, according to the US National Intelligence Council. To tackle global challenges and to maintain world order, America needs to work closely with a host of state and non-state actors as well as allies and non-allies, including a rising China. Instead of checking China's "peaceful rise", therefore, America should strategically capitalise on it to achieve sustainable regional stability.

Moreover, none of China's neighbours, including Japan, wants to join an overt anti-China military bloc, as all depend on China for their economic growth.

Against this background, ideas for a more stable Asian order are being offered by a number of prominent strategists. Drawing on his thought-provoking book *The China Choice*, Professor Hugh White floats the idea of an Asian "concert of powers" to avoid a possible deadly strategic rivalry. America is to partner and share regional power with China as an equal, accommodating or balancing China's core regional interests, along with those of India and Japan. Although White's approach may work, the challenge is how this can be achieved without compromising the interests of America's key regional allies.

Zbigniew Brzezinski, a doyen in Ameri-



can foreign policy, advances a global American grand strategy, comprising a "Larger West" by drawing Russia and Turkey into an enlarged European Union, and a "Complex East", where the US would act as "regional balancer", similar to the role played by Britain in intra-European politics before the early 20th century.

A linchpin of Brzezinski's eastern component is a "US-Japan-China co-operative triangle" to be nurtured through reconciliation between China and Japan, similar to that between Germany and France after the second world war. To accommodate China's core regional interests, Brzezinski suggests early resolution of the main sticking points in US-China relations, particularly the Taiwan issue. He doubts Taiwan can indefinitely avoid the evolution of a more formal connection with the mainland, perhaps under a "one country, several systems" formula, subject to exclusion of any People's Liberation Army deploy-

ment on the island. China's re-emergence as a world power marks another turning point in the tide of history. A classic drama of power transition is playing out. The fracturing of the Asian order is a clear manifestation. A purely military strategy is fraught with uncontrollable risks that may escalate into war. Managing and accommodating China's rise without sacrificing American interests takes strategic insight and bold thinking in the broadest context.

While actual developments and events are unlikely to fit neatly into any recipe, deeper understanding and debate of the dynamics at work may help in better managing a more sustainable Asian order, underpinned by an evolving US-China relationship, the most important of bilateral relations in the 21st century.

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## Forecast failure

**Gwynne Dyer** says a few nasty surprises may be in store as we deal with the 'unknown unknowns' of melting sea ice and climate change

It's no surprise we will have a record minimum of ice cover in the Arctic Ocean at the end of this summer melt season. It's already down to around 4 million square kilometres, with a least another week of melting to go, but this is what you might call a "known unknown". Scientists knew we were losing the ice cover fast; they just didn't know how fast.

I'm no fan of Donald Rumsfeld, the former US defence secretary, but I never had a problem with the distinction he made between "known unknowns" and "unknown unknowns" when discussing intelligence data. He was mocked in the media for using such jargon, but there really is a difference.

A "known unknown", in the case of the Arctic Ocean, is how long it will be before the entire sea ice-free at the end of each summer. The 2007 report of the Intergovernmental Panel on Climate Change talked about that happening some time in the second half of this century, but it couldn't be more specific. A "known unknown", in other words.

As for the impact that an ice-free Arctic Ocean might have on climates elsewhere, it would obviously accelerate the global warming trend, but beyond that there wasn't much to go on. This was the territory of the "unknown unknowns": big things might happen to the complex atmospheric system of the planet, but nobody knew what.

Now we begin to see the consequences. The polar jet stream, an air current that circles the globe in the higher northern latitudes and separates cold, wet weather to the north from warmer, drier weather to the south, is changing its behaviour.

In a paper in the journal *Geophysical Research Letters*, Jennifer Francis of Rutgers University and Stephen Vavrus of the University of Wisconsin-Madison offered a hypothesis that may explain why world grain prices are rising fast.

First, a warmer Arctic reduces the temperature gradient between the temperate and polar zones. That, in turn, slows the wind speeds in the zone between the two and increases the "wave amplitude" of the jet stream. The jet stream flows around the planet in great swooping curves, like a river crossing a flat plain, and those curves – Rossby waves, in scientific language – are getting bigger and slower.

This is a recipe for extreme weather. In the old days, the Rossby waves went past fast, bringing the alternation of rainy and sunny weather that characterised the mid-latitude climate. Now they hang around much longer and generate more extreme weather events.

The temperate zone has been seeing a lot of that sort of thing in the past couple of years – much more than usual. It's cutting deeply into food production in the major breadbaskets of the planet, like the US Midwest and southern Russia. And this was an "unknown unknown": nobody saw it coming.

All the scenarios that the military of various countries were working with assumed that climate change would hit food production very hard in the tropical and sub-tropical parts of the world, and that is still true. But the scenarios also assumed that the temperate regions of the planet would still be able to feed themselves well for many decades to come.

If Francis and Vavrus are right, that may not be the case. It's a most unwelcome surprise – and it may be the first of many.

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## China must grind down entrenched support for state-led economic growth

In the face of a lingering economic downturn, China has made steady growth its top policy goal. Notably, the thrust of the government's macroeconomic policy is entering a new phase: the question now isn't whether stimulus is necessary, but what kind of stimulus and how much is needed.

This policy stance is striking in two ways. First, many economists have warned about the adverse consequences of the last round of stimulus, and the government this time has rightly rolled out more restrained measures. Second, authorities have stressed that growth targets must go hand in hand with economic reforms. This is a sound, fact-based approach.

But what's worrying is that some local governments don't seem to have got the message. A significant number have put the focus of their economic plans on big-ticket development projects, apparently hoping to invest their way into a growth surge. To this end, they are building up the financing platforms that state-owned investment groups rely on.

Estimates of the total amount to be spent have ranged from 7 trillion yuan (HK\$8.6 trillion) to a whopping 15 trillion yuan, numbers far exceeding the 4-trillion-yuan stimulus package introduced in 2008 in the wake of the global financial crisis.

Using government-led investment to spur growth goes against the intent of market reforms; it isn't up to the government to shape the economic structure. In an exhibition for its project plans, one local government even used the image of a rocket, and

**Hu Shuli** says officials who are trying to rev up a sluggish economy with mega projects only take the nation further from its goal of sustainability



likened itself to a launcher, the market to a booster and technology to an accelerator. This faith in government-led growth is typical of the outdated model favoured in the old model of development.

Today, the government has pledged to take a different, scientifically sound path to development. But the economic downturn has given some local governments an excuse to package old wine in new bottles.

While claiming to be exploring a new growth path by "increasing industry concentration", these governments are starving small and medium-sized enterprises so more resources can go to the big projects and big companies. And, in the name of improving regulatory control, the governments promote the mega projects of state-owned enterprises, leading to the formation of production chains that deter competition and bar private enterprise from getting a foot in the door.

This trend is spreading across the country. Unless checked, it will lead to more economic distortions and overinvestment, reviving the risks of empty buildings and soaring debt.

No doubt some officials think the new model of development looks good on paper but takes too long to work in practice. They agree that technology should drive economic growth, but lament that technological

advances take too long; they agree that there should be more competition and less economic distortions, yet complain that profit margins in competitive industries are too low and expansion is limited.

Addicted to their fix of quick, spectacular growth, these officials cling to the old development model. They talk up support for a new growth path, but in practice follow the old formula of "three highs and one low" – high investment, heavy energy use, high levels of pollution and low returns. The result will only take China further away from its goal of a people-centred, co-ordinated, holistic and sustainable model of development.

That the old growth model can still do damage points to just how entrenched this thinking is among Chinese institutions. It cannot be changed simply by the issue of some orders or the chanting of some slogans. For too long, officials have enjoyed control of vast resources and they have become used to relying on mega development projects to drive growth. Moreover, interest groups work to consolidate the government's influence on economic decision-making.

In this system, government officials consider political priorities and their own career prospects first before making a decision; economic factors come last. If an official is

expected to produce results – that is, visible growth – within three to five years, a government-led development path is the only way that can help him reach these short-term goals; market-led development takes too long. Officials know, of course, that their chosen way goes against economic principles and will distort the market. But from their own standpoint, it is the rational choice – it bears the lowest costs and brings the highest returns.

The costs are borne by the wider economy and society: growth will eventually fall; discrimination will become pervasive and rent-seeking and corruption rampant; our society and environment will be pushed to their limits; and development cannot be sustained. The mass protests, riots and environmental disasters we've seen are just some of the consequences of this distorting growth model. They are a warning we should heed.

A slowing economy gives us an opportunity to expedite the transformation of the growth model, so we may correct some of the systemic distortions that could exacerbate economic fluctuations. The key is to speed up political structural reforms and the reorganisation of government functions, so that the efforts on economic reforms can be sustained. If we continue to hanker for economic "miracles", we must be prepared to pay a high price in future.

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## HK has much to gain from 'next generation' trade pact

**Martin Murphy** says it should join the Trans-Pacific Partnership talks

Far removed from today's headlines for the most part, a small but highly influential group of major trading countries has been meeting over the past two years to map out the next generation of trade rules for the Asia-Pacific region.

This collective, unexcitingly called the Trans-Pacific Partnership, originated from a grouping formed in 2005, not by the United States or any of the region's economic heavyweights, but by Brunei, Chile, New Zealand and Singapore. Since then, five other economies – the US, Australia, Malaysia, Peru and Vietnam – have signed on and are now negotiating what is being billed as a "cutting edge, 21st-century trade agreement", with ambitions to push the envelop on trade liberalisation and venture where the World Trade Organisation and Apec have largely failed.

With most tariff barriers in the region removed by free trade agreements or previous trade rounds, what remains are the so-called "behind-the-border" impediments to trade and investment. This is where the Trans-Pacific Partnership is trying to be a pioneer, and its proponents are pinning hopes on it becoming the vehicle that takes us towards a future free trade agreement that would include all members of Asia-Pacific Economic Co-operation forum.

Negotiators for the partnership, who will meet again from today, have been down in the trenches fashioning new

rules on such arcane as regulatory convergence, supply chain management and cross-border services trade. While hardly sexy, these issues are the indispensable facilitators of global trade. The grouping is also making a big fuss about its efforts to help out the region's small and medium-sized enterprises.

Most of these "emerging" trade areas are where Hong Kong already has unique advantages. For example, its firms are leading innovators of supply chain management and service know-how. Further liberalisation of services, now over 90 per cent of its gross domestic product, will undoubtedly play to Hong Kong's strengths and help stimulate growth and employment. Given that most members of the grouping are major service economies, the partnership offers Hong Kong a fast-track services liberalisation agenda consistent with its stated economic goals.

Yet Hong Kong is completely missing in action from the negotiations and has chosen not to even send observers, as Japan has done. When asked about regional trade arrangements, Hong Kong officials like to trot out the usual mantra citing their preference for multilateralism over regional trade deals.

While Hong Kong's total trade with the current negotiating partners, now only about 14 per cent, may seem insignificant, that figure rises to close to 30 per cent when we include prospective members, such as Japan, Korea and

Taiwan, as well as Canada and Mexico who have made recent moves to join. Looking just at services, Hong Kong's trade with this same grouping exceeded 40 per cent of the total in 2010. By sitting out the Trans-Pacific Partnership, Hong Kong risks not only losing bargaining power in any future services negotiations and but also falling behind a growing pack moving up the liberalisation ladder.

Hong Kong likes to think of itself as a regional hub, but its spokes point mainly in one direction. If it is to realise its self-proclaimed status as a leading regional financial and services centre, the city needs to be more ambitious and innovative in its trade agenda.

If the region is to reap the benefits of moving towards a single market, trade rules that address "behind-the-border" barriers need to be firmly established. Hong Kong, with the freest economy in the world, has so much to offer the partnership, and equally much to gain.

The Apec summit presents Hong Kong with an opportunity to step up to the plate and request its rightful place at the table in defining the next century's trade rules.

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