

## INSIGHT

## Common wealth

**Jiang Ruiping** says China's commitment to economic co-operation and belief in greater prosperity for all is producing tangible dividends with its trading partners, most notably its neighbours in East Asia

In the recovery from the global recession triggered by the US subprime crisis, East Asia is clearly growing faster than any other region. And China, which believes co-operation and common prosperity build a solid foundation for growth, has played a leading role in the region's performance.

The surge in economic growth in East Asia in the second half of the last century has been described as an "economic miracle". And this miracle did not end with the 1997 financial crisis, as some Western scholars have suggested. The region weathered that storm and growth picked up once more.

In 2008 and 2009, even in the midst of the global financial meltdown, the real gross domestic product of Asia's emerging markets grew by 7.7 per cent and 7.2 per cent respectively, which were considerably higher than the global averages of 2.9 per cent and negative 0.5 per cent. However, growth had eased from levels in 2007, and the main reason was the dependence of many East Asian economies on European and US markets. Thus, in 2009, East Asian exports dropped by 16 per cent from a year earlier; among the regional economies, exports from the Asean countries and Japan fell by 18 per cent and 25 per cent respectively.

The global economy started to rebound in 2009, and its real GDP growth in 2010 reached 5.1 per cent.

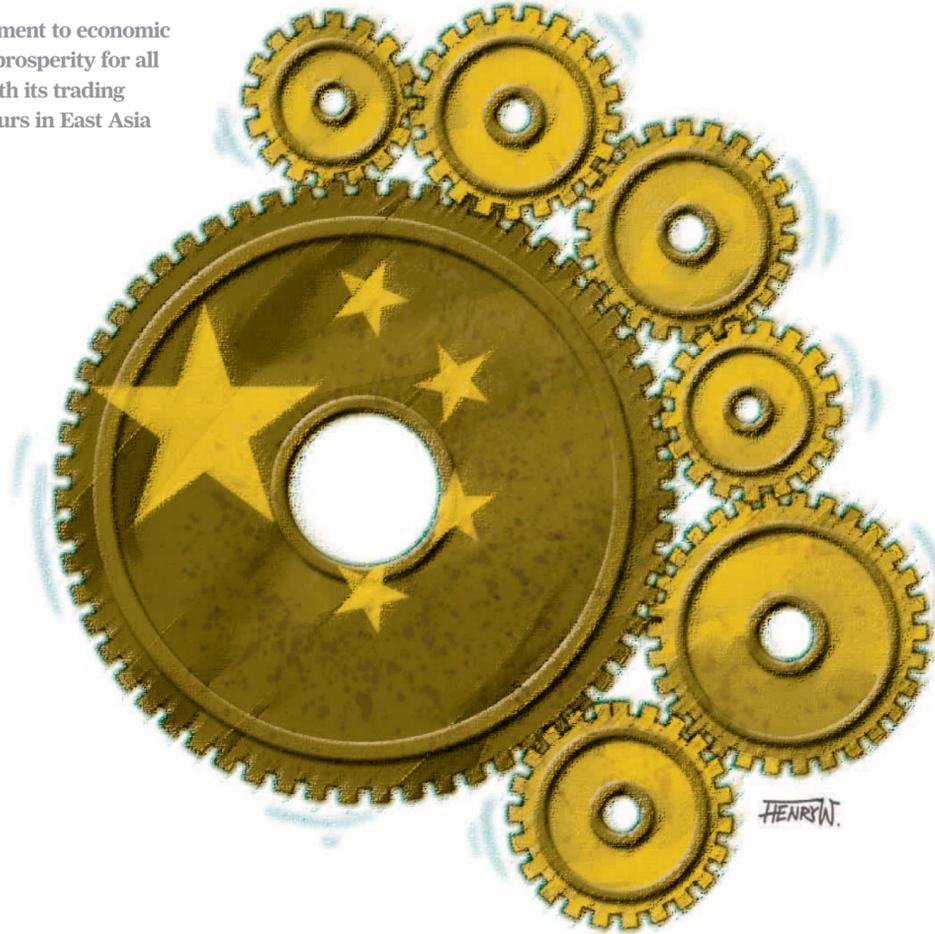
But not all economies grew at the same pace. America's real GDP grew by only 2.9 per cent in the same year while the European Union's stood at 1.8 per cent. Both the US and Europe are forecast to grow at between 1.7 per cent and 2.7 per cent in the next two years.

By contrast, East Asia economies topped the class in growth. Real GDP in Asia's emerging markets and developing economies grew by 9.6 per cent in 2010, and is estimated to reach 8.4 per cent this year and the next.

The region's sterling performance can be largely credited to China. Now the biggest economy in East Asia, China replaced Japan as the second-largest economy in the world last year. China's growth in real GDP last year – at 10.3 per cent – was the region's fastest. Based on International Monetary Fund data, China's contribution to East Asia's overall economic growth last year was as high as 72.2 per cent.

Trade, investment and financial transactions between China and other East Asian economies have also contributed greatly to growth. Many East Asian economies still depend heavily on exports to grow their economy. But while they used to rely mainly on customers in Europe and the US, today their focus has shifted to the Chinese market.

Last year, Japan's exports to China increased by 36.6 per cent, further consolidating China's position as Japan's largest export market. By contrast, Japanese exports to the US rose by 26.9 per cent in the same year.



Other Asian economies see a similar trend: their exports to China are growing at a quicker pace than their exports to the US. For example, Malaysia's exports to China grew by 30.8 per cent while growth in the US markets grew by just 10 per cent. In Indonesia, the numbers were 36.6 per cent and 31.5 per cent respectively, while Thailand saw growth of 33.7 per cent and 21.8 per cent.

The fact is that East Asia's stable economic growth is only possible through regional co-operation and the pursuit of prosperity for all its neighbours. These principles guide China's policy in the region, and will continue to do so in future.

Over the years, China has always advocated and led co-operation between the nations of East Asia. It took the lead in building the free-trade area with the Association of Southeast Asian Nations, setting up the role model for the

development of other East Asian free-trade areas with Asean.

China promotes the Asean Plus Three co-operation and makes outstanding contributions to the region's economic relations under this framework, in issues such as foreign exchange reserves and economic partnerships in different sectors.

China is also an active participant in the East Asia Summit, a forum whose influence is rising



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rapidly. Furthermore, it spares no efforts to boost the trilateral co-operation with Japan and South Korea, and this co-operative mechanism, though still new compared to similar frameworks in the region, is developing well.

China will continue to participate in and promote regional co-operation in East Asia. East Asia's economic prosperity as a whole provides a strong support for the sustained and rapid growth of the Chinese economy. The inseparable and ever-closer interactions between the economic growth of China and the rest of East Asia are taking shape. Only by working more closely with other East Asian economies and pursuing the road of common prosperity can China stay on the track of sustained and stable economic development.

Professor Jiang Ruiping is vice-president of China Foreign Affairs University

## Not for love

**Alice Wu** expects the gloves to come off when we finally find out who will be in the running for the 2012 chief executive election



According to Wang Guangya (王光亚), the director of the State Council's Hong Kong and Macau Affairs Office, our next chief executive must have these three qualities: patriotism, a strong ability to govern and popular acceptance.

Others have since chimed in with their views, not least our current chief executive, who spoke of the criteria of capability, love for Hong Kong people and ability to defend national interests. He also added the ability to withstand the unruly antics of lawmakers.

Beijing's list seems simple enough. It's impossible, for example, to imagine top political positions in any part of the world being held by non-patriots. But what constitutes patriotism is open to interpretations in Hong Kong. So some may be glad to know all it requires is love for Hongkongers, and the ability to defend national interests.

This isn't rocket science. To defend the nation's interests, Hong Kong can basically continue on as usual – as one of the country's financial centres. But to speak of love in politics may just be wishful thinking on Tsang's part.

It's a dog-eat-dog world out there, and that's exactly why it makes his remark peculiar, especially since Tsang himself also lamented the negativity and confrontational attitudes of legislators.

Hongkongers are too pragmatic to look for love where there is none. We don't suffer fools. In a culture of "Tiger mums and cubs", we barely tolerate anyone who is not an overachiever, let alone just capable.

Love, even when there's a lot of it, isn't much of a political currency in this town. The recent resignation of the Democratic Party's chief executive offers a case in point. Chan Ka-wai, a political party officer with no public office, resigned after he was caught visiting a brothel by the press. For all intents and purposes, he's only answerable for the visit in question to his family and his God. As it turned out, his party brethren abandoned him so quickly that it's at least evident there's definitely no "love" there.

Given that a supercharged political year will soon begin with the Election Committee elections, we can be sure that there's going to be more bad blood than love, as already seen with members of the Hong Kong Christian Council fighting over their 10 seats in the enlarged election committee.

Negativity and confrontation work, because in a political system that deprives our chief executives both of the support of political parties, hence votes in the legislature, and of popular support (at least until 2017), those who sit at the helm are just sitting ducks.

And so it's obvious why Beijing would like to see the next chief executive enjoy popular acceptance. But let's not forget that the current and last chief executives enjoyed high popularity ratings on entering office. The problem isn't so much about popularity or acceptance, but of a system that yields diminishing returns. Little wonder Beijing is keeping mum on who to "anoint" next. The earlier the anointed is known, the quicker that "diminishing" process begins, and the less ability he or she will have to "withstand" unruly political antics.

And it filters down to all levels. Nastiness will continue as long as it pays off, politically – for every election, big or small.

Alice Wu is a political consultant and a former associate director of the Asia Pacific Media Network at UCLA

## Hong Kong seeks CSI help with two mysteries

**Mike Rowse** can't work out where our school places and air quality study went

The American television show *CSI (Crime Scene Investigation)* has got to be one of the most successful franchises of all times with the original Las Vegas-based one giving rise to spin-offs in New York and Miami, all three having run for multiple seasons.

The formula is basically the same: bodies are found, painstaking detective work follows, perpetrators are identified. A link is sometimes found between what were initially thought to be unrelated crimes.

Producer Jerry Bruckheimer has many other successful shows under his belt. I thought of him when considering two major economic crimes in Hong Kong: the first is the disappearance of more than 4,300 places in international schools, and the second is the loss of our air quality objectives.

Let us set the scene for each. Every international chamber of commerce in Hong Kong reports that the shortage of places in international schools is now a serious barrier to foreign companies investing in our city and creating in the process thousands of jobs for local people. The senior executives who would head the operations decline to move to Hong Kong until they can be assured that they can bring their families with them.

They soon find that landing a place for their children is incredibly difficult. Every good international school has a waiting list a mile long. The horror stories are endless: Macau schools advertising here so that either the children or the

working parents have to engage in a daily or weekly commute; families basing themselves in Singapore with the main breadwinner working in Hong Kong and returning "home" only at weekends.

Some companies have even been forced to reconsider their entire business strategy and locate vital business units in other locations.

The government accepts that the situation is tight, but in recent articles and statements Education Secretary Michael Suen Ming-yeung and his officials said the occupancy of places in international schools was at 88 per cent. That is another way of saying that 12 per cent of the places are vacant.

According to the government, 48 international schools including those of the English Schools Foundation in Hong Kong provide 36,150 primary and secondary places. The 12 per cent vacancy rate suggests more than 4,300 of these places are still available, but no-one seems able to find them.

A mystery on this scale cries out for a top detective to investigate it. The *CSI* team should be able to get to the bottom of it. It is a similar story with air quality objectives. The present set were drawn up, literally, in another century when Hong Kong was still a refugee town with hundreds of thousands of people living in squatter huts.

But now we are one of the world's most advanced and wealthy cities. We even call ourselves "Asia's world city". Yet the air we all breathe every day is absolutely filthy. The pollution is a serious health hazard

and yet another disincentive for potential investors to set up here. Why would you base yourself in Hong Kong, where the air might kill you or your asthmatic child, when you can go somewhere else that might not be quite as good logistically, but at least you won't need an oxygen mask to survive?

Some years back, the government commissioned the Arup Group to draw up more modern and appropriate air quality standards. This exercise was to be followed by drawing up an action programme to work towards achieving the new higher standards.

Arup apparently finished his work in 2009, but the resulting revised standards have disappeared. Rumour-mongers have suggested that publishing them would confirm publicly just how far away from decent modern standards we are and how many vested interests we would have to upset to achieve them. Perish the thought!

Another one for the laboratory sleuths. How about it, Jerry? Could you find time for a fourth version of *CSI*? Hong Kong needs your help.

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## Egypt's youth find they are back at square one

**Mohamed El Dahshan** says those who led the uprising still have no place in the political process

The January revolution that toppled Hosni Mubarak did not bring about regime change in Egypt, and protesters are back at Tahrir Square to complete that task. But amid frenzied politicking and manoeuvres by the military, young revolutionaries whose fearless struggle instigated the change risk being left out.

Beyond keeping the flame alive at the Cairo square, they need organisation to be a partner in regime transformation.

Protesters are demanding justice for victims of the January revolution; speedier trials for Mubarak and his cronies; and the end of military trials for civilians and the release of all civilians jailed by the military. All problems, protesters contend, can be traced back to the Supreme Council of the Armed Forces (Scaf), which has assumed power since Mubarak's removal in February.

A transitional government, led by protester-vetted Prime Minister Essam Sharaf, scrambles to reshape a government to realise the revolution's goals, despite Scaf resistance. His cabinet is under pressure from the public and the army to make far-reaching decisions for which it lacks political and popular mandate.

Political parties seeking to compete in the upcoming elections are mushrooming at a blinding speed. Rightist, leftist, religious and secular parties – all popping up on the political scene. Meanwhile, many struggle to hold on to the original ideals of the

revolution. Juggling to maintain pressure on the ground and fend off the odd attack from criminals or the police who share eerily similar modi operandi, most are left aside from the political scene.

It's true that a number of revolutionary youth are active in political parties, but almost never in leadership positions. Ad-hoc groups – whose names invariably include some combination of the words "youth", "coalition", "January 25" and "revolution" – are pulling up, with no real mandate yet speaking on behalf of the revolution nevertheless.

Young revolutionaries on the street – the salt of the democratic movement – are cast aside from the political development of the country by the undemocratic Scaf, a caretaking government with populist tendencies, and opportunistic political parties with token youth representation. The revolutionary youth are aware of this – yet disorganised and knee-deep in what can only be qualified as the day-to-day protection of their revolution.

Meanwhile, the political process goes on without them. The young revolutionaries, hailed at the start of every political speech but thereafter disregarded, must find a way fast to participate in the electoral political process.

Mohamed El Dahshan is an economist and an independent consultant on development policy. Reprinted with permission from YaleGlobal Online. <http://yaleglobal.yale.edu>

## Debt crises often start when public overreacts

**Robert Shiller** says the world pays far too much attention to the debt-to-GDP ratios

Economists like to talk about thresholds that, if crossed, spell trouble. Usually there is some truth in this, but the public often overreacts to such talk.

Consider the debt-to-GDP ratio, much in the news nowadays. It is sometimes said, almost in the same breath, that Greece's debt equals 153 per cent of its annual gross domestic product, and that Greece is insolvent.

Here in the US, public debt comes perilously close to 100 per cent of annual GDP and continues to rise. Could it be that people think that a country becomes insolvent when its debt exceeds 100 per cent of GDP? That would clearly be nonsense. After all, debt (which is measured in currency units) and GDP (measured in currency units per unit of time) yields a ratio in units of pure time. There is nothing special about using a year as that unit.

If economists did not habitually annualise quarterly GDP data and multiply quarterly GDP by four, Greece's debt-to-GDP ratio would be four times higher than it is now. And if they habitually "decadalised" GDP, multiplying the quarterly GDP numbers by 40 instead of four, Greece's debt burden would be 15 per cent. From the standpoint of Greece's ability to pay, such units would be more relevant, since it doesn't have to pay off its debts fully in one year.

Most people never think about this when they react to the headline debt-to-GDP figure. Economists who adhere to

rational-expectations models of the world will never admit it, but a lot of what happens in markets is driven by pure stupidity – or inattention, misinformation about fundamentals, and an exaggerated focus on the stories of the day.

What is really happening in Greece is the operation of a social-feedback mechanism. Something started to cause investors to fear that Greek debt had a slightly higher risk of eventual default.

Lower demand for Greek debt caused its price to fall, meaning that its yield in terms of market interest rates rose. The higher rates made it more costly for Greece to refinance its debt, creating a fiscal crisis that forced the government to impose a severe austerity plan, leading to public unrest and an economic collapse that has fuelled even greater scepticism about Greece's ability to service its debt.

This feedback has nothing to do with the debt-to-annual-GDP ratio crossing some threshold, unless the people who contribute to the feedback believe in the ratio.

The fundamental problem that much of the world faces today is that investors are overreacting to debt-to-GDP ratios, and calling for austerity programmes too soon.

We should worry less about debt ratios and thresholds, and more about our inability to see these indicators for the artificial constructs that they are.

Robert J. Shiller is professor of economics at Yale University. Copyright: Project Syndicate