

# China's own path

**Eric X. Li** says the West's outdated views have blinded it to the failures of liberal democracy and market capitalism. By allowing China to rise in its own way, conflict can be avoided

From US President Barack Obama's ceding of the centre stage to his Chinese counterpart at the recent Apec gathering, to frenzied attempts to decipher the country's political and economic directions from the party's just-finished third plenum, the rising giant of the East often dominates Western political discourse. Unfortunately, such discourses are taking place on a faulty paradigm.

Ever since 1989, mainstream Western opinions about China have been dominated by two divergent theories with opposite policy prescriptions. The ultimate aim of both was to build a universalised world order, which of course could not be credible without China.

One is the "imminent collapse" school. Espoused by cold [war] warriors, it predicted the wholesale collapse of the country. The one-party political system was inherently incapable of managing the intensifying social and economic conflicts as the country went through its wrenching transformation from a poor agrarian economy to an industrialised and urban one.

**[China's] rise must be peaceful. Otherwise the consequences are unimaginable**

The Western alliance should seek to contain China, so the theory went, and thereby hasten the fall of a threatening power ruled by an illegitimate regime.

The other is the "peaceful evolution" school. These are the panda-hugging universalists who made the "they-will-become-just-like-us" prediction. As the country modernised its economy, China would inevitably accept market capitalism and democratise its political system, and proponents urged deploying an engagement policy to speed up this evolution.

Nearly a quarter of a century has passed since the Western intellectual and policy establishment has been guided by these two schools of thought. The report card is not pretty.

The assumptions made by the "imminent-collapse" school include the following: China was run by a dictatorial party clinging to the dead ideology of Soviet communism. Its political system inherently lacked the ability to adapt to the

rapidly modernising Chinese society. The myriad social and economic conflicts would soon implode, and the fate of the Soviet Union awaited the party state. With that, a major ideological obstacle to a Western-designed universal order would be removed.

Of course, the cold warriors have had to postpone the effective date of their prediction year after year for decades. What did they get wrong? It turned out that the party has not been holding back or reacting to China's modernisation, but leading it. Self-correction, an ability many attribute to democracies, has been a hallmark of the party's governance.

In its many decades of governing the largest- and fastest-changing country in the world, the party has pursued the widest range of policy changes compared with any other nation in modern history. Most recently, it has successfully managed a highly complex transition from a centrally planned economy to a market economy. In the process, it has produced the most significant improvement in standard of living for the largest number of people in the shortest time in history.

Because of this performance record, China's modernisation process has strengthened the party's rule, not weakened it. The key driver of the party's success is inherent in its political institution. Over the decades, the party has developed a process through which capable leaders are trained and tested. Whereas elections have failed to deliver in many parts of the world, meritocratic selection has in China.

As embarrassing as it must have been for the "collapse" predictors, the bitterest disappointment belongs to the universalists who foresaw the inevitable evolution of China towards liberal democracy and market capitalism. Their conviction was guided by the grand post-cold-war narrative: After the fall of the Soviet Union, the world would come together under a globalised order. Western values were universal values. Western standards were universal standards.

But China walked a different path. As the party embarked on dramatic reforms, the country possessed a degree of national independence unmatched by most developing nations. This ability to control its own destiny allowed China to engage globalisation on its own terms. Its one-party system remained intact. Its economic integration with the developed world was carried out in ways that brought maximum benefits to the Chinese people.

Market access was granted in exchange for direct investments that created industrial jobs and technology transfers. The government exercised political authority



above market forces and led the largest investment expansion in infrastructure and health and education in history.

The dream of "they-will-become-just-like-us" has evaporated. After the cold war, many were enamoured by the material successes of the West and sought to emulate Western political and economic systems without regard to their own cultural roots and historical circumstances.

Now, with a few exceptions, the vast majority of developing countries that have adopted electoral regimes and market capitalism remain mired in poverty and civil strife.

In the developed world, political paralysis and economic stagnation reign. The hard fact is this: democracy is failing from Washington to Cairo. Even the most naive panda huggers could not sustain the belief that China would follow such "shining" examples. If the West wants to deal rationally with China, a paradigm shift in thinking is urgently needed.

To begin a reassessment, it is useful to first recognise what China is not. It is not a revolutionary power, and it is not an expansionary power. It is not a revolutionary power because, unlike the West of late, it is

a non-ideological actor on the world stage and not interested in exporting its values and ways to the outside world. It is not an expansionary power because that is not part of the Chinese DNA.

The Chinese outlook is that of centrality, not universality. More practically, the Chinese see, rather wisely, that, although it could not accept wholesale the current global architecture, its rise must be peaceful. Otherwise the consequences are unimaginable. China's sheer size makes this so. Self-interests will dictate that China is likely to err on the side of restraint as it re-emerges as a great power.

History is littered with precedents of failures to accommodate rising powers, leading to tragic conflicts. But that does not have to be destiny. Give China time, allow it the space and independence to continue on its own path. Live and let live. The forced convergence led by the West is costing everyone, not least the West itself.

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## Truth is out there

**Paul Stapleton** says if even only a tiny fraction of the billions of earth-like planets in our galaxy contain life, then we really are not alone

The recent news that there are 40 billion earth-sized planets in our galaxy, give or take a billion or two, suggests that the possibilities for extraterrestrial life have jumped enormously. This number is an estimate, of course, seeing that astronomers have found actual evidence of only about 1,000 exoplanets. Forty billion is a big number, however.

Coincidentally, in the same week, the discovery of another "earth-like" planet was announced, but this one has a surface temperature of up to 5,000 degrees Fahrenheit so we can probably exclude life there. This is a reminder of the "rare earth" hypothesis, which claims the conditions for life, especially intelligent life, may be extremely exceptional in the universe.

The rare life hypothesis contends that several significant hurdles must be overcome for life to gain a foothold on a planet. Naturally, many of these conditions assume life, as we know it, is based on the existence of liquid water. Thus, a planet needs to be in the "Goldilocks zone" – not too close and not too far from its mother sun. But there are other, less intuitive, requisites for life.

One of these is a good-sized moon that can keep the planet from gyrating wildly over the millennia. Ours does this for us quite nicely; otherwise, our hemispheres would frequently switch back and forth. Tropical plants would find themselves in the Arctic on a regular basis, which would be good for neither those plants nor the life that eats them.

Our moon also provides a clue to another requirement. Its cratered surface suggests that the solar system is like a shooting range for comets and asteroids. Therefore, another condition is the need for an atmosphere to break up the small rocks that come in, as well as the necessity of a large planet like Jupiter to Hoover up many of the large rocks out there that could wipe out any nascent life.

Related to the protective force of our atmosphere is our magnetic field, which keeps the sun's radioactivity from frying us, and the microbes as well. In fact, these are just a few of the many preconditions for life to emerge as proposed by the rare earth hypothesis.

Now let us just imagine for a moment, however, that intelligent life is relatively plentiful in the universe, say, one planet for every galaxy, which would amount to one civilisation for every earth-like planet in a galaxy – in other words, 100 billion civilisations, if we assume there are 100 billion galaxies in the universe.

Now consider that our species, Homo sapiens, first developed art and sophisticated tools, hallmarks of intelligence, about 50,000 years ago, a mere blink of the eye in cosmic time. And let's say that each intelligent civilisation lasts a million years on average before annihilation.

There are a lot of assumptions here, but allowing them a loose leash, we can conservatively say that big, bad events such as world wars, epidemics and assassinations, as well as big, good events like cures for major diseases are happening in the thousands all over the universe, right now.

This recent news about billions of earth-sized planets could mean the universe as we know it is getting a whole lot more interesting.

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## Pension reform in Asia will benefit more than just its greying population

**Andrew Sheng** says such funds can help stabilise capital markets with a focus on the long term

The relaxation of China's one-child policy accepts that demographics play a major role in a country's economic fortunes. Asia's fast growth was built on favourable demographics, a growing labour supply at relatively cheap rates, and open economies. But in many parts of Asia, as the population begins to age rapidly, there is genuine concern that Asians may grow old before they become rich.

Last year, nearly 450 million people or 11 per cent of Asia's population were 60 years and over. By 2050, these numbers will more than double to 1.2 billion, or 24 per cent of the population, not far behind projections of 27 per cent in North America and 34 per cent in Europe. The old-age dependency ratio will rise rapidly in Japan, Greater China, Singapore and India.

There is, however, a major difference between being old in Asia and being old in the advanced countries. In 2011, private pension funds in nine Asian economies had assets of US\$663 billion, or only 5.3 per cent of gross domestic product in 2011, way below the OECD average of 70 per cent of GDP.

In the past, when families were large, the young were the "pensions" of the old, because it was taken for granted that the young would care for the old. Today, when many families have only one or two children, this is no longer possible.

In fact, the reverse is happening. In Japan, single children in their 20s still living with their parents are called

parasite singles. A single Chinese child today is showered with gifts and love from six adults (four grandparents and two parents). But when he or she becomes an adult, one cannot take care of four to six old ones.

The lack of pension coverage or under-funding of pensions is a serious problem in Asia. Even in rich countries like Japan, low interest rates mean many pensioners face a lack of income from their financial assets for

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adequate retirement purposes. There are several good reasons why governments should reform pensions as a priority. First, there is a question of adequacy of retirement income. Second, to be fair, more people should have pension coverage. Third, pension funding should be sustainable.

There is a further reason why pension funds play a major role. They can contribute significantly to capital market development, more efficient long-term resource allocation and national financial stability. It is no coincidence that during the May/June market shocks, due to the fear of reversal of US

quantitative easing, the markets that had the least exchange rate and interest rate volatility were those with deep pension or provident funds.

Domestic pension funds could easily buy up local bonds and foreign exchange sold by the foreigners when there is capital outflow. Countries without such large institutional funds had to rely on the central bank to be the major defender of exchange rate and interest rate stability.

Because pension funds take the long view, they can contribute to long-term strategic investments in growth sectors such as infrastructure, green technology, financing for small and medium-sized enterprises and social enterprises. This will reduce over-reliance on short-term bank financing or foreign financing that is inherently subject to liquidity risks and market volatility.

Furthermore, effective pension management also plays a major role in improving corporate governance, because active pension funds can vote against bad management.

The lack of development of long-term institutional investors, such as pension, insurance and long-equity investors, means Asian financial systems are overly dependent on the short-term banking system.

Indeed, the current global financial structure is essentially "long debt and short equity", meaning it is biased towards increasing debt and not capital.

There are several reasons why leverage in the world is getting worse, not better. First, the higher the leverage, the

greater the return on equity, but at higher risk. Corporate owners and managers with share options can easily increase their returns by borrowing from banks, rather than raising capital, since it is neither cheap nor easy to raise capital from the stock market.

Second, interest on debt and write-offs on bad debt is tax deductible; investments in equity, or equity losses, are not.

The leverage game is the main reason advanced markets got into trouble. It is also why I am not convinced that quantitative easing is a solution to the global crisis. It fundamentally tries to solve an excess debt problem with more debt. Unfortunately, pensioners and savers are the ones who suffer from near-zero interest rates and the potential bursting of asset bubbles.

A stable, more equitable Asian financial architecture needs to "long equity and short debt". More pensions for more people will make for a more equitable society, and pension funds can take long-term equity positions that invest in future green growth.

As Tennessee Williams said: "You can be young without money, but you can't be old without it."

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## Politicisation of Hong Kong society is to be welcomed

**Stephen Vines** says civic participation signals a more mature community

The usual suspects are gathering to bewail the terrible politicisation of Hong Kong life. Unsurprisingly, they are quick to criticise the government's growing band of opponents for making everything political.

Tut, tut, they mutter, things have got so bad that even variety shows, radio and television stations have been drawn into the political furor. And then there's education, countryside issues and goodness knows what else.

It appears that the excitable critics of politicisation don't even know the meaning of the word.

Let's remember that politics simply relates to anything concerned with government and public policy and other aspects of civic life. For many decades, Hong Kong was saddled with the problem of too little participation in the political sphere, reflecting widespread civic apathy and a worrying detachment of the people from the political process.

This is no longer the case, and it is strange that growing community involvement should be castigated. Surely this is, at least in part, a reflection of the maturity of Hong Kong society. It also reflects the reality of a largely immigrant community being transformed into a more stable community with stronger roots in Hong Kong. People get involved in public policy because they care. Is this a bad thing?

What most of these critics really mean when they talk about politicisation is the kind of

politicisation that they dislike. They would prefer Hong Kong's political engagement to be limited to passive acceptance of dictates from above. Even here, there is something new in the air: some pro-government forces that feel the need for greater activism are mobilising to protest against the protesters.

Meanwhile, we have a government that has become the recruiting sergeant for mass protests. It has done so in part

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through sheer ineptitude and by pushing policies that are obnoxious.

Thus, even supposedly non-political issues, such as television broadcast licences, have become a matter for mass protest. And protests are now being handled by the most highly political police chief in recent memory, who appears to start from the assumption that it is his job to minimise the effectiveness of protests and arranges policing that ends up turning peaceful rallies into rather agitated affairs.

Moreover, Hong Kong's chief executive is not merely content with pursuing unpopular

policies and refusing to explain them; he cannot help but meddle in affairs, such as the disciplining of a school teacher caught on camera swearing at police officers.

When it comes to core issues, such as education and the attempt to impose a national education curriculum, small politics moves into the big league. The usual suspects start bleating when the intended recipients of this new curriculum – that is, the students – vigorously express their views on this matter.

Having had an opportunity to speak to students in the Scholarism movement, I have been highly impressed both by their intelligence and commitment to society. Rational people should applaud the presence of these young people in Hong Kong.

The woolly charge of politicisation will not disappear but sensible people will look upon this process as an opportunity to involve more people in the development of society. This also verges dangerously close to the idea of making Hong Kong more democratic and the very people who claim to love this place will, in the same breath, declare that its people are too immature to govern themselves.

The bottom line is a visceral distrust of the people. The lesson of history is that when the rulers of societies distrust their own people, these societies build failure into their structure.

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