

The government’s much-vaunted advisory committees appear to be achieving very little, writes **Tony Latter**

# Going nowhere



Back in 2000, the Legislative Council called for a review of the administration’s extensive network of advisory committees. The review was duly launched, but any subsequent progress towards reform – if that was ever the intention – seems to have been modest at best.

There are many difficulties inherent in the committee system. The majority of committees are involved only in monitoring the implementation of policy rather than formulating it. The agendas are invariably driven by officials so that, even when fundamental policy issues are within the ambit, the committee is usually being invited only to rubber-stamp official proposals rather than originate ideas. Meanwhile, the private-sector members seldom have the time, resources or motivation to prepare much substantive input themselves.

In truth, there is little incentive for the parties concerned to countenance change. Officials are mostly more than happy to refer proposals to a supine body which can

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**Glaciers move faster**

usually be depended on to provide the endorsement they seek, while sustaining the veneer of open government and consultation. Non-officials are generally happy to accept the status of membership, the more so if it involves little effort.

Thus, few may be prepared to own up to the shortcomings of the system. It is refreshing, therefore, to read some pretty frank comments in a recent report from the Monetary Authority, reviewing its work in relation to the banking sector.

One section of this otherwise unremarkable document, produced by a friendly consultant, explores the efficacy of the Banking Advisory Committee and the Deposit-Taking Companies Advisory Committee. Past and present members were interviewed. They confessed that the

“... arrangements are not working well. The role of the committees is no longer clear and meetings have become something of a formality ... the number of participants is considered too large for meaningful discussion.”

Tellingly, the report discovers that smaller, informal working groups, and even breakfast meetings, deliver better value than the statutory committees. Those committees, the report suggests, should be rationalised, and distanced further from government. There is also a hint that more non-bankers should participate.

There is food for thought here for all statutory bodies and formal committees which sprawl across government. We all know in our hearts that, nine times out of 10, the best way to resolve a problem or explore an initiative is to select a small ad hoc group of people of vision, who possess relevant expertise or a suitably incisive intellect, and whose judgments we trust. This does not necessarily equate to a room full of chairmen and chief executives who, invariably, have enough other challenges to worry about already.

The trouble with any of these less formal procedures, however, is that they are more likely to encounter accusations of

cronyism and lack of transparency. This would be an understandable concern, given the way in which the government has tended to operate in the past.

The imperative to consult and garner views is more pressing in Hong Kong than elsewhere because of the democratic deficit. But if there were a way of making the advisory system more effective, it surely would have been discovered by now.

Reverting to the Monetary Authority’s document, it was only after the consultant had conducted his inquiries that the members’ disquiet about the committees’ workings came to the fore.

One wonders how long such feelings had been simmering, or why, if they had been suspected, no action had been taken. If that is in any way typical, then multiply by 400 and you have a rather depressing picture of the state of the government’s advisory network – eight years on from when Legco called for a review. Glaciers move faster. But if non-official members won’t speak out, they are as much to blame for the sorry state of affairs as are officials.

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James Dorn

## Caveats on reform

After 30 years of economic liberalisation and rapid growth, China is now the world’s third-largest trading nation and the fourth-largest economy. In a new study for the Carnegie Endowment for International Peace, Albert Keidel, a former US treasury official, predicts that, by 2035, China will be the world’s largest economy and, by 2050, will grow to twice the size of the US economy.

In “China’s Economic Rise: Fact and Fiction”, Dr Keidel dispels myths about China’s rise and presents a strong case for continued growth. He also makes a persuasive case for a policy of engagement and downplays the need for a sharp appreciation of the yuan. He concludes: “Beijing now seems likely to overcome potential stumbling blocks such as economic instability, pollution, inequality, corruption and a slow pace of political reform” to become the world’s largest economy. I generally agree with his analysis, but with several caveats.

First, it’s very difficult to predict the path of an economy over the long term, as many unforeseen problems can arise – including policy reversals or natural disasters. What mainly will determine the path of China’s development is whether Beijing follows policies that support, rather than destroy, economic freedom.

Second, I think Dr Keidel places too much faith in China’s current system of market socialism and its repressed capital markets, arguing that “China’s financial system, rather than a liability, is on the whole a source of confidence in optimistic growth scenarios”. That positive assessment neglects the problem of “forced saving” and accepts that planners somehow know better than free-market participants how best to allocate capital.

China has generated high savings rates and allocated substantial funds towards infrastructure investment, but investment decisions are often politicised and personal freedom violated in the process of “development”. China could conserve scarce capital by attracting foreign funds to finance infrastructure. A move towards free capital markets would help China close the gap between domestic saving and investment, and thus help normalise the balance of payments.

China’s capital markets cannot be world class until financial repression is abolished

It is not in China’s interest, as a capital-poor nation, to be a net capital exporter – accumulating US\$1.8 trillion of foreign exchange reserves, with a large portion invested in US government debt. Its capital markets cannot be world class until financial repression is abolished and capital freedom – along with widespread private property rights and the rule of law – instituted.

Interest rate and capital controls, a pegged exchange rate, lack of private investment alternatives, interference with the free flow of information, poor accounting practices and a still sizeable government presence in allocating investment funds (with consequent corruption) mean the mainland has a long way to go before it matches the transparency and efficiency of Hong Kong.

On a brighter note, much has been done to reform the banking system since 2000, and to create a market-based exchange rate regime since July 2005. Likewise, Beijing is gradually liberalising capital controls and interest rates. Thus, financial repression could disappear in 10 to 20 years, and Shanghai could become the world’s leading financial centre.

Third, Dr Keidel’s forecasts depend on benign assumptions about inflation in both the US and China. But those assumptions are suspect, with politicians still believing that a little inflation is the price for growth. One of China’s biggest challenges is to tame inflation while letting markets set energy prices at levels reflecting global demand and supply. Controlling inflation, however, requires a more independent monetary policy and a faster nominal appreciation of the yuan.

Finally, China’s development will depend as much on politics as on economic reasoning. If reformers let markets grow, eventually market liberalism would replace market socialism. Increasing individual choice, however, requires political reform.

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## Other Voices

### A local approach to dealing with tyrants

Ian Holliday

First Myanmar, then Zimbabwe. Twice, in recent months, tuggish regimes in distant corners of the world have rigged popular polls, wantonly escalated human suffering, played petty politics with the global community and blithely ignored insistent howls of protest.

The reaction of western powers to such outrage is typically to issue loud rebukes and push for targeted UN sanctions. This happened when Myanmar’s Than Shwe first crushed democracy protests late last year, and then stood in the way of aid for cyclone victims earlier this year. It happened again when Zimbabwe’s Robert Mugabe brutally beat his way to re-election last month.

In neither case did much concrete engagement result, however. In the UN Security Council, China and Russia used formal vetoes to block resolutions tabled by the US and Britain, and supported by a clear majority. On the ground in Asia and Africa, regional powers exercised informal, foot-dragging vetoes to thwart calls for aggressive action against the dictators in their midst.

The result is that global responses to Myanmar and Zimbabwe have now settled into an uneasy holding pattern. Western leaders are not happy, but at the same time find they have few viable options. Regional leaders are discomfited both by the tyrants they live with on a daily basis and by the public pressure applied by attention-grabbing outsiders.

Is this, then, the way things have to be when crisis erupts in a tin-pot dictatorship far from the main spheres of western influence? In

many regional theatres, the answer is probably “yes”. Only when western leaders actually listen to their counterparts and try hard to work with them, rather than against them, will things be different.

At the Security Council, no change in internal dynamics is on the cards. Similarly, in Asia and Africa, few alterations to regional dynamics can be expected.

In future dealings with countries where unilateral action lies beyond the realm of practical politics, and some form of coalition building must take place, the US and its allies need to recalibrate their responses. In place of ritual posturing, they need to adopt more nuanced approaches that seek, as a first priority, to foster regional support for change. This does not mean western nations have to abandon their principled opposition to political oppression. However, such voices should speak in terms that are not jarring to neighbourhood sensibilities.

This points to a strategy of committed multilateral engagement through the UN, and through regional powers and bodies like China, the Association of Southeast Asian Nations, the African Union and the Southern African Development Community. In the long run, it is only by acting with and through such bodies that western powers can achieve their objectives.

In both Myanmar and Zimbabwe, western nations are currently little more than a Greek chorus mouthing comments on events unfolding on stage.

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### Nuclear danger remains high while it pays to cheat

Bennett Ramberg

Forty years ago this month, more than 50 nations gathered in the White House to sign the Treaty on the Non-proliferation of Nuclear Weapons. US president Lyndon B. Johnson later called it “the most significant step we had yet taken to reduce the possibility of nuclear war”.

Today, we can evaluate whether the accord truly marks the “historic turning point” Johnson hoped for. The evidence suggests that, while the pact’s dykes have largely held, serious leaks have developed, prompting nuclear vigilantes to apply force when they have concluded that diplomacy would fail to halt the bomb’s spread. Whether this is a harbinger for the future remains unclear, but it raises a continuing spectre given the failure of the NPT to include an effective enforcement mechanism.

One fact is not in doubt: the NPT is the legal lynchpin for the nuclear non-proliferation regime now signed and ratified by all but three nations – India Pakistan and Israel – and one dropout, North Korea. The treaty’s principles remain bold: the pact’s five acknowledged nuclear weapons states – the US, Britain, France, Russia and China – promise to eliminate their nuclear arsenals, and the remaining parties commit not to acquire nuclear weapons in exchange for the right to develop civil nuclear power, with international assistance, subject to binding safeguards.

While the NPT is not entirely responsible for the absence of dozens of nuclear-armed states that many people once feared would emerge, it generated a standard of behaviour that continues to guide most countries.

Still, the accord never fulfilled its disarmament objective; the five nuclear powers continue to hang on to their weapons. More disturbing for international calm, a handful of non-nuclear signatories have secretly flouted the agreement. Eventually exposed, their perfidy demonstrated the NPT’s imperfect ability to deter, catch and reverse nuclear cheats.

Six cases mark the most egregious cheating. Twice, Iraq bucked safeguards – first when it built the Osirak

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reactor and failed to provide inspectors full transparency and convincing assurances it would not use the plant to produce plutonium for weapons and, second, when it nearly completed its secret enrichment programme before the 1991 Gulf war.

North Korea proved more successful, becoming the eighth country to detonate a nuclear weapon. At least two other NPT parties – Libya and Syria – engaged in nuclear subterfuge but failed. Now there is Iran.

Equally disturbing has been the failure of International Atomic Energy Agency safeguards to catch such violations. A lack of confidence in treaty enforcement inspired three instances of military vigilantism: Israel’s strike on Osirak in 1981, its attack on Syria’s suspect site last year

and Washington’s 2003 invasion of Iraq. Mixed results followed.

For the Jewish state, military strikes have suggested another lesson; a nuclear vigilante could apply force with impunity. When other countries contemplated the same thing, they were not as sanguine. Hence, the Soviet Union, the US, Egypt and India decided that it is better to live with a nuclear-armed China, North Korea, Israel and Pakistan, respectively, than risk war.

The UN Security Council, which remains the NPT’s enforcer, could better address proliferation break-outs and the compulsion of some to take matters into their own hands were it to grant itself authority to promptly stop cheaters by all means. But divisions among permanent members make this goal unlikely.

This leaves only two options. First, there is ad hoc diplomacy, which succeeded in eliminating Libya’s nuclear programme and closing North Korea’s nuclear weapons production reactor. But that takes time, and there are no guarantees. For states that believe time will merely enhance a lethal adversary’s ability to get the bomb – Israel’s concern about Iran today – only vigilantism remains.

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### World hungers for a principled US president

Jim Hoagland

John McCain’s prisoner-of-war experience is a strong selling point for him in the US election. But it is a powerful drag on his popularity in Europe, where past US involvement in Vietnam still generates intensely negative feelings.

Barack Obama’s flirtation with protectionism similarly divides opinion at home and abroad. His attacks on the North American Free Trade Agreement helped him compete for the Democratic nomination. But important foreign partners like Mexico, China and Japan wonder if an Obama presidency would be good for them.

The world is very much with Americans in this unorthodox year. Foreign leaders traditionally complain that they cannot vote in US presidential elections even though their nations’ fortunes frequently depend on the outcome. This year they get a say, of a sort, in a campaign in which foreign policy is both urgent and important.

One aim of Senator Obama’s high-flying whistle-stop tour of Afghanistan, the Middle East and Western Europe was to assemble televised images suggesting that the world is eagerly awaiting the change in Washington that he promises. That was certainly no problem in George W. Bush-weary Germany.

That raises two big questions: is it true that the rest of the world is solidly behind Senator Obama and the Democrats? And should Americans care what the rest of the world thinks about our election?

My own unscientific poll – conducted while travelling in May and June to six of the G8 industrial nations (I missed Germany and

Canada) and three other European countries – suggests that, while “Obamania” is deep in Western Europe, it is not as broad globally as is often thought in the US.

Russia’s political elite and its government can probably also be counted in the Obama camp, though. Senator McCain’s visceral support for including former Soviet republics Ukraine and Georgia in Nato, and his suggestion that he will work to get Russia expelled from the G8, has turned attitudes in Moscow against the Republicans this year.

In Asia, trade is the biggest dividing line of the campaign and works in Senator McCain’s favour. Both China and Japan have settled into a comfortable relationship with Mr Bush and give him high marks for his Asia policy and for promoting free trade. They would expect Senator McCain to continue this pattern and fear that Democrats would disrupt it. I was told in Tokyo, India’s political leaders seem to share those concerns.

Senator Obama did little during his meticulously choreographed Middle East stops to dispel worries in Saudi Arabia, Kuwait and elsewhere that he will be at least as pro-Israeli as Senator McCain – and more likely to quit Iraq, and engage Iran, without regard to the effect those actions would have regionally.

Not monolithic when it comes to the virtues and shortcomings of the two candidates, the world’s view of the US electoral process is consistent on one point: there is a hunger for renewed US leadership that emphasises American ideals and principles as much as power.

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