

Washington's arms deal with Taiwan is yet another incident stoking Sino-US tensions, writes Ted Galen Carpenter

# A growing disconnect

A nasty spat has erupted between Washington and Beijing over the Obama administration's arms sales to Taiwan. As soon as the US made the official announcement of the US\$6.4 billion package last Friday, Beijing responded with both harsh words and retaliatory measures. Deputy Foreign Minister He Yafei (何亞非) called in US Ambassador Jon Huntsman for a dressing down. Beijing also suspended scheduled military exchange programmes and threatened to impose sanctions against any American company involved in the production or distribution of weapons destined for Taiwan.

The conventional wisdom in the United States is that this episode is no big deal. Those who take a relaxed view contend that China's reaction is in line with its response to previous arms sales. The new brouhaha, the reasoning goes, will subside and relations will soon return to normal. Perhaps. But the arms sale showdown is

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just the latest in a series of incidents stoking tensions between China and the US. Those tensions encompass economic, diplomatic and security disputes.

Even before the Obama administration took office, US officials complained about a variety of practices that they believed gave China an unfair advantage in the global economic arena. Those ranged from an undervalued currency to import dumping and arbitrary exclusion of American products from China's domestic market. President Barack Obama's decision to impose punitive tariffs on imported Chinese tyres last summer was a signal that US patience was wearing thin.

The annoyance is not confined to trade matters. Washington has long prodded Beijing to take a firmer stance against the North Korean and Iranian nuclear programmes, and especially show a willingness to back more robust economic sanctions against those two countries.

Administration leaders hoped that the

summit meetings with President Hu Jintao (胡锦涛) during Obama's visit to China would lead to progress on Washington's grievances. That did not happen. Not only did Chinese leaders largely rebuff the president's requests for policy changes, there was a widespread perception in the US that the Chinese treated Obama with a dismissive attitude that bordered on disdain.

That treatment created a propaganda bonanza for Obama's domestic political opponents. Critics excoriated him for "kowtowing" to the Chinese and argued that the China summit confirmed that Obama is a diplomatic lightweight who is incapable of defending important American interests. Most telling, his staunch defenders were few and far between regarding his performance in Beijing.

China's unwillingness to back serious carbon-emissions reduction measures at the Copenhagen climate change summit did not help relations with Washington. Once again the Chinese seemed to defy the Obama administration on a high-priority US goal.

But Beijing has its own grievances with the US. Chinese officials have expressed both veiled and explicit complaints about the huge and growing US federal budget deficits. In their view, Washington's profligate fiscal practices threaten to trigger an inflationary spiral that would undermine the value of China's vast dollar holdings.

Chinese leaders also grow weary of Washington's lectures about the need to get tough with North Korea and Iran. In Beijing's view, America's stubborn unwillingness to address the wider security concerns of those countries is at least as responsible as the recalcitrant attitude of the two regimes for the lack of progress on the nuclear issue. Moreover, officials believe that China is being asked to take measures that would undermine vital Chinese interests. They regard North Korea as an important security buffer and Iran as a crucial energy supplier, so are extremely

reluctant to antagonise either regime. The announcement of the Taiwan arms sale, coming on the heels of US Secretary of State Hillary Rodham Clinton's harsh comment earlier the same day that China risked "isolation" within the international community if it did not endorse more robust sanctions against Iran, may have been the last straw for Beijing.

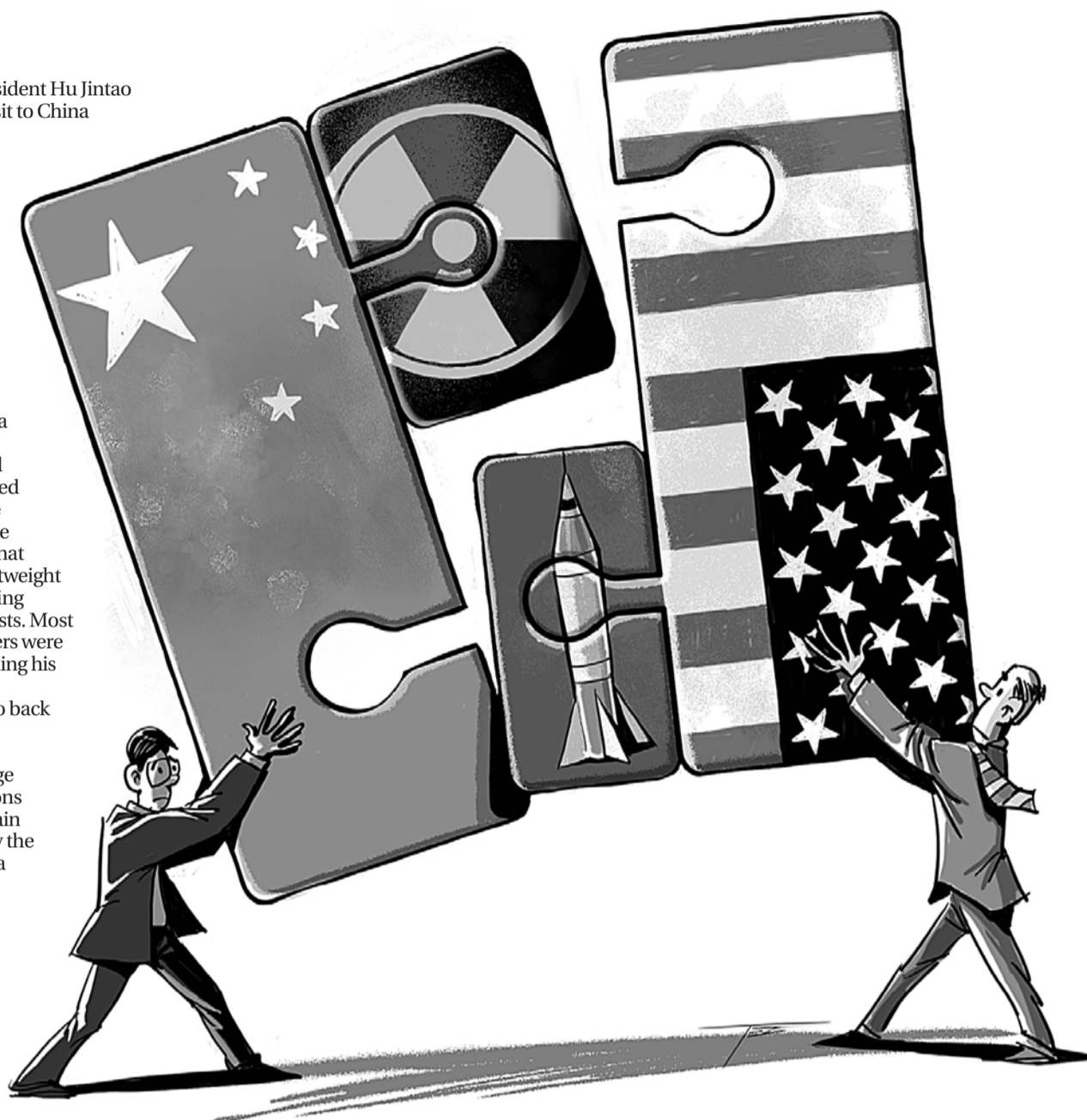
Contrary to the conventional wisdom, the Foreign Ministry's response to the arms sale contained one element that departed from previous reactions. China had never before sought to sanction US firms for such transactions. That threat was a significant escalation and seemed contrary to Beijing's obligations as a member of the World

Trade Organisation. One can hope that the conventional wisdom is right and that the latest dispute will soon fade.

But the bulk of the evidence suggests that storm clouds are building in the US-China relationship.

The world's largest economy and its soon-to-be-main rival are not likely to become overt adversaries anytime soon, but there is a noticeable chill in the air.

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## Canny Canucks

I am a cultural opportunist. China's ascendancy has made me a proud Chinese, if not a rabid nationalist, yet. Accounts of the nation's achievements turn my eyes watery. But, lately, I feel like a proud Canadian, too. (Disclosure: my family emigrated from here to Canada when I was in my teens.) Canada and Canadians rarely get the recognition they deserve. But they are getting it now. Volumes of ink have been spilled over how China emerged triumphant from the global financial meltdown. That was before the potentially detrimental consequences of its loose monetary and currency policies became apparent. Now even Beijing admits there are dangers ahead.

But lately, quiet, dull and unexciting Canada has been getting its dues. The fact that, of all the Group of Seven nations, Canada is the only economy that didn't have to bail out its financial sector is surely something worth pondering seriously. Surviving this perfect financial storm was no mean feat. Somehow my own investment portfolio mimics the differing fortunes of the US and Canada. My Citigroup shares were practically zero when I bid good riddance to them whereas my Canadian bank shares held up remarkably well. Why that was so was brought home to me in an excellent article over the weekend by the *Financial Times'* managing editor in the US, Chrystia Freeland, a fellow Canadian.

I bet Paul Krugman read it too because *The New York Times* columnist and Nobel Prize-winning economist covered essentially the same grounds as Freeland in his latest opinion article. But where they differ is this: Krugman thinks Canada succeeded not because of its culture but due to the way its financial institutions are set up; Freeland thinks culture determines the way Canadian institutions are built and operate. This is, of course, an old and endless chicken-or-egg-first dispute over the priority of institution and culture. But, as a Canadian, I am with Freeland.

The distinctly Canadian characteristics that go into determining its financial regulations and institutions have made them far more robust to shocks than the more flashy British-American systems. A culture of restraint and common sense, along

Canada and Canadians rarely get the recognition they deserve. But they are getting it now

Their society is poles apart from the winner-takes-all ethos characteristic of US business. Like the Japanese counterparts, they simply would not tolerate the kind of ludicrous pay and bonuses American bankers and chief executive officers give themselves.

Canadian banks are required to put up much higher capital reserves and much higher quality equities within those reserves. Excessive leverage is discouraged. A simple but effective and well-co-ordinated financial services regulatory system also trumps the piecemeal system in the US, which is deliberately set up to create gaping loopholes for financial services companies to exploit. Like Hong Kong, Canadian homebuyers have to put in a high down payment, ensuring a high equity-to-loan ratio. Interest-only mortgages are unheard of. Unlike Hong Kong, most Canadian mortgages are fixed rate, rather than variable. The low level of securitisation of mortgages ensures Canadian banks did not have the kind of exposure to debts-based derivatives that burned big holes in the balance sheets of so many US banks.

Canadians today are not mired in the torturous and acrimonious debates in the US and the European Union about how to reform their systems and rein in their arrogantly destructive bankers and financiers; or the increasingly heated disputes over China's undervalued yuan. From that perspective, you start to appreciate the hard-earned and well-deserved tranquility of the Great White North.

Alex Lo is a senior writer at the Post

## Voices: Mainland

# When too much ball control is a bad thing

David Eimer

Beijing takes sporting success seriously. It's the reason why the government admits to spending about 800 million yuan (HK\$909 million) each year on sports programmes.

For the Communist Party that is money well spent, because the achievements of the top athletes are hugely popular with the public. That helps foster the intense nationalism that has taken hold on the mainland in recent years, with the avid encouragement of Beijing.

So it was no surprise to see tennis players Zheng Jie (鄭潔) and Li Na hailed as national heroines for reaching the semi-finals of the Australian Open last week. Media outlets linked their accomplishment to the mainland's rise to world power status, as has become standard when they cover sports stars' success overseas. It's as if each one of the backhand winners Zheng and Li hit was another blow in Beijing's campaign to earn respect around the world.

Yet Zheng and Li's achievement raises awkward questions for those in charge of the mainland sports system, as well as highlighting how Beijing's insistence on micromanaging society is not always the answer to its many problems. In December 2008, Zheng and Li became the first athletes to opt out of the state-run sports structure. The power officials wield over those in the system is absolute, whether it relates to the way they train or who they date, so many criticised the decision to allow Zheng and Li to break free.

Their results since then have made a mockery of that opposition; they are both playing better than

ever. Now, the pair's success makes for an instructive contrast with the farce that is men's soccer on the mainland. Despite being the most populous nation on earth, China's national team is ranked 97th in the world. So dire is the state of soccer that, in October, President Hu Jintao (胡锦涛) and his supposed successor, Xi Jinping (習近平), both commented publicly on the need for it to improve.

The result of their intervention has been predictable. Senior officials

Zheng and Li's achievement raises awkward questions for those in charge of mainland sport

from the Chinese Football Association have been rounded up for questioning, along with coaches and players. Above all, supervision of the sport has been radically increased. Last week, sports minister Liu Peng (劉鵬) said that no less than six government departments would be involved in overseeing the domestic league. But the real reason for the mainland's inability to field a decent team stems from the fact that football is barely visible on the streets of China's cities. Like most sports it exists in a parallel universe to ordinary life, played mainly by those deemed good enough for one of the government's sports schools. Until soccer becomes a popular pastime it is hard to see how the involvement of six ministries will improve its standard.

On the mainland, though, the automatic answer to any failure is to increase government regulation and add to the multiple layers of bureaucracy that already blanket the country. Only last week, Premier Wen Jiabao (溫家寶) got himself another post – head of the National Energy Commission, which has been created just a year after the National Energy Administration was founded to oversee energy policy.

That urge to micromanage is currently being taken to extremes. Text messages are now checked for their content, as part of the anti-pornography drive that human rights groups claim is just an excuse for Beijing to increase its scrutiny of the population. Having already extended its control over the internet last year, it must seem natural to the party that mobile phones need to be monitored too.

In doing so Beijing is merely revealing its paucity of ideas. Just as Zheng and Li's efforts in Australia demonstrate that enhanced supervision does not guarantee sporting success, so blocking lewd text messages is unlikely to improve the quality of people's lives. All it shows is that the mainland has gone beyond being a nanny state to one that is positively Orwellian.

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## Voices: Climate change

# Carbon price quandary bodes ill for investment

Andrew Brandler

The UN Climate Summit in Copenhagen was disappointing in many ways. Although no agreement was expected, world leaders should have clarified reduction targets and the future of mechanisms under the UN Framework Convention on Climate Change and the Kyoto Protocol. These include the Clean Development Mechanism (CDM), which provides carbon credits to promote investment in low- or non-carbon-emitting projects in the developing world.

Without clear emissions-reduction targets for 2020 or a framework for the carbon market, the Copenhagen summit failed to provide any basis for a global price signal for carbon. A broad-based, credible carbon price plays a critical role in any successful climate policy and would kick-start much needed investments in clean energy.

Although the CDM has its flaws, it is part of the global response to tackle climate change. From the perspective of an investor-operator in Asia's power sector, fixing the CDM would involve streamlining and simplifying project approval and registration procedures, extending the mechanism to all technologies (including hydro, nuclear and clean coal), relaxing the rules that make projects eligible for CDMs, eliminating local biases and promoting a more stable and predictable value for carbon credits. Renewable energy projects are long-term investments that require a reasonable amount of revenue clarity. Unfortunately, carbon prices have oscillated widely over the past 18 months, making it impossible for any investor to use the CDM as a reliable source of revenue.

Our experiences with wind, hydro, biomass and solar projects across Asia have provided important insights that bear on the emissions trading debate. In particular:

- Solar, biomass, geothermal and tidal power still face major price and reliability hurdles before they are commercially viable – whether or not they qualify for CDM support.
- Investment in wind power is now commercially viable in some regions with strong governmental policy incentives. This raises the question of whether such projects are still eligible for CDM support – since, at present, projects are only suitable if they cannot stand on their own feet.
- Nuclear power needs to be accepted as a critical part of our "decarbonising" efforts and be eligible for CDM support.

But there is a bigger issue. Following Copenhagen's failure, it is now far from clear whether the world is going to reform, extend or simply abandon the Kyoto Protocol and associated mechanisms like the CDM. Businesses around the world need to know whether the CDM will continue beyond 2012.

Of course, carbon trading alone will not address the challenges of low- or non-carbon-emitting power generation and meeting emissions targets. Financial incentives – including subsidies – will be needed for many strategies to take root.

Nonetheless a stable carbon price would kick-start much needed investments in clean energy.

Making the CDM relevant and effective is unquestionably important – and world leaders must give clear assurances about its future.

Andrew Brandler is CEO of CLP Holdings

## Voices: Iran

# Meeting of minds over regime change

Michael Gerson

It means something in foreign policy circles when realists and idealists converge on a policy – as they are beginning to do on Iran.

Realists – think Richard Nixon and Henry Kissinger – assert that only the external behaviour of a regime is of direct concern to the US; its habits of repression matter little to the national interest. Idealists – think Ronald Reagan and George W. Bush – believe that the internal nature of a regime eventually determines its external behaviour; a government that represses its people is more likely to be aggressive and destabilising, so US interests are served by the spread of democratic ideals. Somewhere in between these views, US foreign policy is formed.

I consider myself a foreign policy idealist. My former colleague in the Bush administration, Richard Haass – now president of the Council on Foreign Relations – describes himself as a "card-carrying realist". But he might also be called a principled realist. He believes that engagement of repressive regimes must be justified by outcomes.

In a recent *Newsweek* essay, Haass argues that Iranian nuclear ambitions are unmasked, that nuclear negotiations have failed, that the Green Revolution is more viable than many first thought and that promoting "political change" in Iran – regime change – is now a strategic opportunity. This change would not solve every problem between America and Iran but a more representative regime would certainly be less aggressive, less tied to terrorism and more open to international influence.

For some Americans the idea of regime change is tainted by the Iraqi

occupation. But there is also the model of South African regime change, overturning apartheid with massive international pressure, and Polish regime change, aided by covert American support for unions and democratic resistance.

But is Iran ripe for the South African or Polish approaches? Part of the answer may come next Thursday – the anniversary of Iran's Islamic revolution – when the democratic resistance has called for another round of mass protests.

There are signs of revolutionary instability in Iran. So far, however, the instruments of state repression – the Revolutionary Guard and their brutal militias – have held tough.

Mohsen Sazegara – a resistance leader in exile, who was once a press aide to the regime's founder, Ayatollah Ruhollah Khomeini – told me that the Green Revolution needs more time to improve its organisation, to gain "more depth of knowledge of nonviolent methods" and to "fill the gaps in solidarity" among various anti-government groups. "But the most important gap," he insists, "is between the knowledge of the nation and the ignorance of the regime." A revolution often seems incredible – right before it becomes inevitable.

American leverage over events in Iran is limited. Most important, the Obama administration must cross a mental line – from merely criticising human rights abuses to creatively encouraging political change.

On February 11 and beyond, the people of Iran, seeking their own regime change, need to know they are not alone. Such idealism is now the only realistic course.

Michael Gerson is a Washington Post columnist