Liu Xiaobo stands for war, not peace

Barry Sautman & Yan Hairong

Few, if any, African states have congratulated Liu Xiaobo, the 2010 winner of the Nobel peace prize. Whatever their motives in not doing so, congratulations are not deserved, because Liu's perspectives and goals are not compatible with the interests of most Chinese.

All one hears in the international media about Liu is that he is a heroic fighter for democracy. In fact that is not the case. But, even if he were, his prescriptions for China would remain untenable. First, the precondition for being awarded a Nobel peace prize should be that one is for peace. Liu is not. He has vituperatively endorsed wars, including the invasion and occupation of Iraq and Afghanistan and, retrospectively, the Korean and Vietnam wars.

It is not surprising that the Nobel committee would overlook the fact that Liu has supported wars that the United Nations refused to authorise. Committee members represent the principal parties in the Norwegian Parliament. Leaving aside the question of why the world should credit a prize awarded by five white politicians of one nationality, it should be noted that their parties endorsed the wars in Iraq and Afghanistan, for which Norway has provided troops.

Second, Liu stated in a 1988 interview with a Hong Kong magazine that China should undergo 300 years of colonialism to make it like Hong Kong. He reiterated this view in an interview with the same magazine in 2006. Given the massive violations of human rights under colonialism, it doesn't go down well in China or, one would assume, most ex-colonies.

Third, the Charter '08 document that led to Liu's arrest called for the privatisation of industry and land in China. The Soviet Union's privatisation led to the confiscation of the core of the economy by a handful of oligarchs. And the partial privatisation of state assets in China, which mainly enriched officials, has caused most Chinese to indicate in surveys their opposition to the wholesale privatisation Liu proposes.

Fourth, Liu, who has long been financed by the US government's National Endowment for Democracy, proposes an instant shift to electoral democracy as the solution to China's problems. That does not hold out promise for China at all. Professor Randall Peerenboom of Columbia University's Law School has shown that some non-democratic states (such as Singapore and some Arab states) are rated highly in terms of the rule of law, while electoral democracies (such as Guatemala, Kenya and Papua New Guinea) rate poorly.

States that have made the transition to electoral democracy at low levels of wealth (and China is still very much a developing country) have low levels of development and considerable instability. Only a few small states, at the high-end of developing countries, have sustained electoral democracy. The exception is India, but in many economic and social aspects it compares unfavourably with China. India also has a hugely problematic political system.

Peerenboom has observed that "anyone who believes that most Chinese citizens are likely to see elections as the answer to their problems based on the experiences of Asian countries should think again. Elections ... hardly inspire confidence or match the inflated rhetoric about the ability of democracy to hold government officials accountable."

Studies also show that only the "highest levels of democracy" improve human rights practices. In many cases the transition to electoral democracy in developing countries worsens rights.

If most Chinese knew what Liu stands for, they would reject him. In that respect the Chinese government not only unnecessarily imprisoned Liu but ineptly condemned the awarding of the peace prize solely on the fact that Liu is a convicted criminal. It would have been simply far better to show the world what Liu stands for. Then most of it, like Africa's states, would have no reason to congratulate him.

Barry Sautman is a political scientist and lawyer at Hong Kong University of Science & Technology. Yan Hairong is an anthropologist at Hong Kong Polytechnic University

ANC rifts drag in the media

From Page 35

on the media.

I am convinced that the outcomes announced at the end of the meeting between editors and government in Magaliesburg last weekend, which essentially says the ANC will hold off and not proceed with the media tribunal until the media has completed its own self-regulation review, mostly reflect the deputy president's — and a few others' — personal pragmatism.

Jackson Mthembu, the ANC spokesperson, has since the meeting been quoted saying the ANC will not suspend the implementation of its Polokwane resolution (recently endorsed by the national general council) to proceed with investigating the feasibility of a media tribunal.

This creates some confusion, but having attended the Magaliesburg meeting, I am optimistic that, beyond the bare-knuckled, robust exchanges, there was a real desire to move towards constructive engagement.

Even the mostly reserved Siyabonga Cwele, the minister of state security, committed himself to further engagement on the Protection of Information Bill and Jeff Radebe, the justice and constitutional development minister, said he was waiting for the media to have more talks with him on section 205 of the Criminal Procedure Act, which is an issue because it compels journalists to disclose their sources.

My point is that we are now at a point where we actually take an interest in internal ANC debates and hope that the rabid militants and those who have much to gain from a closed society are not able to prevail over those who want some kind of sensible outcome. Such an outcome would allow us to work as freely as we have been doing since 1994 while accommodating the concerns of those who feel we do not adequately provide for them when they are wronged by inaccurate reporting.

● Read Richard Calland's take on the Protection of Information Bill at www.mg.co.za/secrecybill

www.mg.co.za

Currency wars:

It is the most urgent debate in global economic governance: how to deal with the threat of 'currency wars'. Deep imbalances between the US and China are just one part of the story, surging currencies in emerging markets like South Africa and Brazil threaten to choke exports and growth prospects. The US and China are doing battle over Chinese efforts to hold down the value of the renminbi, which makes Chinese exports cheaper. Meanwhile, developing countries with stable, liquid debt markets are struggling with the effects of a flood of foreign cash, as rich country investors buy up government bonds that offer interest rates better than those available in the US, Europe and Japan. What is to be done? On the one hand, competitive devaluation and trade protectionism could turn the fragile global recovery into a new slump. On the other, policymakers are searching for effective instruments to intervene, with disagreement emerging this week between the treasury and the Reserve Bank. As part of our series on trade policy and the rand, we offer two contending views by leading international economists

Marcelo de Paiva Abreu

It is perhaps not surprising that, amid severe economic crises, there is a notable increase in the temptation to blame foreigners. Naturally, too, the foreigner also has to bear the burden of adjustment. The current position of the world economy and the interaction of conflicting national economic policies is proving to be fertile ground for blaming the foreigner and the "beggar thy neighbour" syndrome.

"Beggar thy neighbour" policies became generalised in the 1930s, with tariff increases and competitive currency devaluation in relation to gold.

There is not much to be learned from these past mistakes, because fixed-exchange-rate regimes remained ingrained in the minds and hearts of policymakers at the time, as Bretton Woods would show.

The main lessons to be drawn are, perhaps, that coordinating macroeconomic policies is difficult and that the generalised adoption of protectionism or competitive devaluation is universally harmful.

Brazilian authorities have recently emphasised the adverse effects of the present "currency war" on the domestic economy.

The main (unnamed) target of their criticism could have been either the United States or, less likely, China. The US, because the dollar, has been weakened by recurrent "quantitative easing", a magnificent neologism designed to improve the respectability of outright money-printing.

There is also no doubt that the persistent Chinese policy of sterilisation of exchange inflows, through the accumulation of massive reserves, is a major source of instability for the world economy and hurts Brazilian trade interests.

But Brasilia tends not to speak out on this. It would square badly with an ill-advised diplomatic stance on China that resulted in Brazil recognising China's status as a market economy back in 2005. Arguments about the possible effects of yuan appreciation on prices of commodities in which Brazil is a main supplier have also been heard as part of the effort to centre criticism on the US.

Brazilian complaints could lead to the conclusion that domestic policies have been adequately addressing the issue of overvaluation of the Brazilian currency, the real. This has certainly not been the case. The Brazilian reference interest rate (Selic), which reflects the cost of government borrowing, has been sustained at extremely high levels for many years — it is now at 10.75% on an annualised basis — and has consequently been attracting carry trade that seeks to exploit the significant interest rate gap in relation to reference rates in other economies.

The lesson to be drawn is that protectionism or competitive devaluation are universally harmful

One of the important reasons for such a sustained high interest rate, besides Brazil's high-inflation history, is the persistent pressure related to growing public expenditure.

Public credit has also been expanding rapidly, mostly in the form of subsidised loans funded by the issue of public debt. The rationalisation that this spending is needed as a counter-cyclical measure to offset slower growth has long ceased to apply because the economy is starting to overheat.

With both eyes on the coming presidential elections, the Brazilian government has been increasingly resorting to window-dressing techniques to disguise the deterioration of public sector finance, while the tax burden has increased to levels above 35% of GDP.

The inability to increase public sector savings keeps domestic capital formation below 19% of GDP. That, in turn, increases the external vulnerability of the economy, because the gap between investment needs and available savings has to be covered by foreign-capital inflows.

The gap increases in line with the ambition to improve growth performance and reduce the sharp contrast between Brazilian growth and that of China and India.

Other instruments available to counter overvaluation, such as increased taxation of foreign exchange inflows, are unlikely to work effectively, as recent experience shows. Market interventions in

The South African Reserve Bank faces the challenge of how to respond to a new flood of US dollars that threatens to cause the rand to appreciate further. Photo: Sukree Sukplang/Reuters

Roaring rand

Desmond Lachman

As the United States Federal Reserve engages in a new round of quantitative easing to revive a flagging US economy, the South African Reserve Bank is faced with a major policy challenge. How should it respond to the new flood of US dollars that threatens to cause the rand to appreciate further from its already heady levels? In mulling its policy options, the Bank would do well to consider that the Fed's prospective quantitative easing also offers it a rare opportunity to rescue the rand from its present dubious status of being among the world's most volatile currencies.

The Bank should seize this opportunity to better equip it to cope with the stormier days that probably lie ahead for the global economy.

In the past two decades the Bank's

A view from Brazil

Brazil goes to its presidential poll next month. The writer says Brazil should counter the dangers of exchange rate overvaluation with sound domestic macroeconomic policies backed by strong political will Photo: AP/Natacha Pisarenko

the spot and future foreign exchange markets are also not very efficient and are extremely costly, given the adverse interest rate differential. The cost of holding reserves already exceeds 1% of GDP.

Can a coordinated multilateral framework to control currency wars be established and effectively contribute to alleviating the menace faced by emerging economies? One should not be optimistic. Less complex negotiations involving attempts to spread the benefits or costs of policy packages fairly among different countries have faced enormous difficulties. The failure to reach agreement on a rather modest tariff and subsidy-reduction package in the Doha Round of the World Trade Organisation (WTO) in 2008 is an indication of the major obstacles faced by collective international action in the economic field.

And the income gains and losses related to WTO-promoted multilateral liberalisation are much smaller than gains or losses that could result from currency wars.

Many difficulties arise. How enforceable will possible current account targets be? Will a negotiating framework be established? What about surveillance, dispute settlement and permissible retaliation? It does not seem that the International Monetary Fund (IMF) is even remotely equipped to mimic the WTO in the field of international macroeconomic policies, even not taking into account the imbalance of voting power and the gross over-representation of developed economies (especially European economies) in the IMF.

An old Brazilian saying comes to mind: "It is exactly from where you least expect a solution to crop up that indeed it does not."

The main role of forums such as the financial G-20 and other international organisations should be to mobilise efforts to avoid the adoption of "beggar thy neighbour" policies through increased trade protection or the aggravation of present foreign exchange rate imbalances. And possibly to cajole decision-makers able to act upon the more significant sources of disequilibrium — most prominently in China, but also in the US — to give more weight to the international repercussions of their macroeconomic policies.

A workable formula for emerging countries such as Brazil to counter the danger of exchange rate overvaluation would be to combine action in international forums — even if results are rather uncertain — with sounder domestic macroeconomic policies which, given political will, might be adoptable.

The presidential election results at the end of this month will be an important indicator of whether this is feasible.

Marcelo de Paiva Abreu is a professor of economics at the Catholic University of Rio de Janeiro

puts Reserve Bank in a policy quandary

policy of non-intervention has contributed to the rand's acute volatility. Markets have come to regard the rand as a one-way bet at a time of global financial-market turbulence. This volatility has resulted in the rand weakening on a number of occasions from less than R7 to the dollar to more than R11 to the dollar.

Such volatility is not conducive to satisfactory domestic macroeconomic performance. At times of undue strength it has hampered the export sector; at times of acute weakness it has contributed to domestic financial-market instability and has complicated the attainment of the Bank's inflation targets.

Most emerging market economies do not share South Africa's almost pathological reluctance to engage in serious foreign exchange market intervention to prevent their currencies from getting too strong.

On the contrary, they routinely engage in sterilised foreign exchange market intervention to ensure that their country's international competitive edge is not undermined by undue currency strength.

China massively intervenes to keep its currency undervalued, as is reflected by the build up in its international reserves to a staggering $2.6-trillion. The practice of aggressive exchange rate intervention is also common in non-Japan Asia, Argentina, Brazil, Russia and Turkey.

In the past decade, to the Americans' consternation, China has shown that a country can keep its currency grossly undervalued if it engages in truly massive foreign exchange intervention. By most measures China's currency has been maintained at 20% to 30% below its fair value over the past 10 years, in spite of the largest of external current account surpluses and despite periodic bouts of hot money inflows. And China has managed to hold its currency down without paying the price of higher domestic inflation.

Many economies do not share our reluctance to engage in foreign exchange market intervention

An argument frequently advanced against foreign exchange intervention is its potentially large cost to the treasury. This cost arises because relatively high interest rates have to be paid on the bonds the Bank would sell to sterilise the inflationary impact of any such intervention. Since the Bank has to pay more than 6% on any sterilisation bonds it issues but would receive only 1% on the dollar reserves it accumulates, the interest rate costs on foreign exchange intervention could be huge.

One would not wish to minimise the potential cost of foreign exchange intervention, but one needs to balance such costs with the potentially large capital gains associated with such intervention. In the present South African context of an exchange rate that is probably overvalued by at least 15%, the potential capital gains from intervention would, in time, more likely swamp any interest rate costs. The Bank would realise these gains by buying US dollars at less than R7 to the dollar now and selling them at more than R10 to the dollar at a time of renewed global financial market turmoil. Aside from being potentially highly profitable, by creating a two-way market, such intervention would help reduce the excessive volatility that has traditionally characterised the rand in turmoil times.

Without intervention the Bank will soon be forced to resort either to interest rate cuts or to the imposition of capital controls to try to minimise further upward pressure on the exchange rate. International experience would question how successful such measures would be in the longer haul and how distortive such measures might be for the economy. They would certainly not have the benefit that building up international reserves through foreign exchange intervention would have in terms of preparing the country for the rainy days in global financial markets that certainly lie ahead.

Desmond Lachman is a resident fellow of the American Enterprise Institute