As with the economic disaster, consumption without limits underpins the climate-change crisis, writes **Chandran Nair**

Market failures

How to increase the size of the global economy without depleting the Earth's resources has been a challenge that has, for far too long, been conveniently ignored. The financial meltdown has now come as a stark reminder of how the world's failure to strive for sustainable development has grave consequences.

Humanity faces an urgent challenge – climate change – largely brought about by man-made activities and excesses. As little as five years ago, many governments, politicians and corporations were in denial, refusing to accept the limits to our unsustainable ways. The financial world relied on market mechanisms for righting breakdowns, even those affecting the natural world.

The origins of the financial crisis – in subprime mortgages – tell the story of unsustainable ways. According to the Centre for Responsible Lending, 90 per cent of people who took subprime loans from 1998 to 2006 already owned homes and, based on world averages, probably belonged to the top 10 per cent in terms of quality of life and housing. Many refinanced homes to further fuel a consumption-driven lifestyle; second homes not only tax the Earth's resources but heating and cooling gobble up energy.

Consumers are not the only offenders, though. Lured by the promise of disproportionate rewards, banks fed this culture of "more and bigger is better", overlooking how high-risk loans would be repaid.

With climate change, we can see parallels – mankind heads towards disaster, as many cherish a belief that the markets will save the day. Much of this philosophy is again pushed by the Anglo-Saxon centres of finance in London and New York. Many policymakers pin hopes on market-driven solutions – in the form of carbon credits or betting on investments in renewables – to solve the climate crisis.

The reality, however, is that market mechanisms have serious limitations and the potential to create more problems than solutions.

A closer look at carbon trading shows rampant problems with this proposed panacea: first, it does not reduce emissions but, rather, frees polluters of responsibility by allowing them to purchase credits elsewhere – typically in developing countries – thus encouraging complacency. Carbon trading is also unreliable, as the tools to measure credits are murky. Trading companies do not agree on the level of credits required for the simplest offset calculations.

> Capitalism has met its nemesis in climate change and policymakers should not be seduced by the market's quick fix

The remedy demands sacrifices of people in the developing world who already scratch a miserable living. With political survival at stake, no government, democratic or otherwise, will adopt complex global trading schemes run by western banks and risk dashing their people's economic aspirations.

Renewable energy schemes are also vulnerable to excesses. As the stakes become higher and project proponents become greedier, bankers and lawyers develop increasingly complex, opaque financial instruments to tap into growing potential – this is already happening in the emissions trading markets. The results will be high, short-term profits with little regard for reversing negative trends. Reckless behaviour will not be self-corrected by the competitive market until it's much too late.

There are natural checks to rampant consumption-driven growth. But the market, corrupted by perverse incentives and overconsumption, has ignored the warning signals.

The attitude of "no limits" is fantasy. A steadfast belief in market mechanisms is hopefully beginning to lose credibility.

With global markets on shaky ground, governments have intervened – and this should be the case for climate issues. The global public good should not be placed on the sacrificial altar of the private interests of unregulated financiers. In the case of climate change, clean technology projects need funding and these should be sourced from the public purse.

Better strategies must be found to combat climate change. The most obvious is also the most unpopular: reducing emissions requires rapid reduction in the consumption of fossil fuels and that means accepting limits to growth based on promoting relentless consumption.

Those unconvinced of the need for limits need only to consider the statistics in the WWF's "Living Planet Report 2008": humans use 30 per cent more resources yearly than the Earth can replenish.

Until far-reaching regulations are introduced to reduce emissions, the true innovations needed to protect humanity will not surface. Draconian measures to put sustainability into operation are key, as few people act purely for the greater good. Ironically, such measures are, of course, easier to enforce under authoritarian forms of government than in so-called liberal democracies. China, for example, managed to reduce pollution levels in Beijing by imposing restrictions on car usage on certain days of the week. Public acceptance of this policy that protects the greater good illustrates that effective solutions to the climate crisis depend on taking actions free of political intervention by vested interests.

The financial crisis demonstrates a need for strong government to protect the public good. In a resource-constrained world, there's likewise no substitute for sound regulations. Policymakers must concede that capitalism has met its nemesis in climate change, and should not be seduced by the market's quick fix.

Chandran Nair is founder and CEO of the Global Institute for Tomorrow. Reprinted with permission from YaleGlobal Online. http://yaleglobal.yale.edu

Laurence Brahm

shambhalahouse@yahoo.com

Saving the world

When President Hu Jintao (胡錦濤) convened the Communist Party Central Committee's economic working conference last week, he warned that the effects of the global financial crisis could hit China's economy hard next year. Many Chinese economists have claimed that "Chinese characteristics" make the economy immune to global economic effects. Such head-in-the-sand thinking may soon be coming to an end. As China 's gross domestic product growth begins falling below the 8 per cent required to keep angry citizens off the streets, the party is beginning to feel nervous, especially as the number of riots increases throughout the country.

The party's slogan for fighting the global financial crisis, "save ourselves to save the world", is a reminder of the type of perpetual irresponsibility that most of Europe and North America fear from China's leadership. The formula proposed to achieve the party's objective is equally predicable – spend as much government money on the same kind of infrastructural development as possible to give workers jobs, while lining the pockets of corrupt cadres, thus keeping everyone happy. Certainly, the corrupt cadres will purchase luxury goods with the money they pocket, keeping the high-end side of China 's economy stable. But the world may benefit, too.

China's 4 trillion yuan (HK$4.55 trillion) stimulus package, spread over the next two years, is expected to increase GDP by 1 percentage point or more. Economists looking at the deluge of factory closures in the southern provinces – effectively foreign disinvestment – in the wake of the global financial meltdown have estimated that GDP growth for next year might reach only 6 per cent. However, when the stimulus package kicks in, the economy may be closer to the 8 per cent threshold necessary to allow Mr Hu to sleep soundly without having to worry about a peasant uprising like the one that brought down the Ming dynasty.

> Corrupt cadres will buy luxury goods with the money they pocket ... But the world may benefit, too

For China, the stimulus package is affordable; it proudly estimates that its fiscal income will easily cover the package. But it is estimated that only 1.18 trillion yuan will come from fiscal earnings – with the rest covered by local governments and business, and the issuance of 500 billion yuan of state treasury bonds per year over the next two years. Half of the bonds will be bought by China's state-owned banks, which makes everything terribly convenient. Most banks are technically insolvent anyway, given their range of bad loans, dodgy property projects and state-owned enterprise get-rich-quick schemes, so nobody is worrying too much about that.

Many fear the stimulus package will result in white elephant projects, corruption and embezzlement. The State Council has announced that 24 inspection groups, each led by an official of vice-ministerial rank, will scour the country to prevent unnecessary projects and keep corruption in check. A similar approach was adopted when the then premier, Zhu Rongji, (朱鎔基) sent vice-minister-led inspection teams to prevent waste and corruption during his own infrastructure spending programme. It seemed to work then, but times have changed: fiscal spending then pales in comparison with that of today.

So there is some truth in the idea that, by saving itself first, China will save the world. Expect a massive number of imports to be used in the projects. Despite Europe's stimulus packages, there is little chance for growth in infrastructure. Expect multinationals to be knocking on China's door, selling their services.

In turn, expect Chinese delegations to visit many countries on official tour packages to inspect projects and products needed for import under the stimulus package. Nightclubs from Hamburg to Las Vegas will flourish! This is good news. China's own global trade relations will develop in a new direction. Foreign investors will be back occupying China's massive five-star hotels, maybe this time without money to invest, but with lots of infrastructure gadgets and maybe some get-rich-quick schemes to sell, as well.

Laurence Brahm is a political economist, author, filmmaker and founder of Shambhala

Other Voices

The economy has to come first for Obama

Robert Samuelson

As he assembles his economic team, US president-elect Barack Obama faces a central strategic decision that only he can make. Starting with his "economic stimulus" plan, will he focus mainly on reviving the economy and relieving the financial crisis? Or will he use the economic crisis as a vehicle to advance a more ambitious social and economic agenda? The two approaches are at odds. The first aims to build a political consensus and economic confidence; the second would intensify political conflict and economic uncertainty.

The decision ought to be easy. Every new president is assaulted by his own supporters, who want him to put their particular agendas atop his "to do" list. That's already happening, as Mr Obama's allies clamour for speedy action to provide universal health insurance, combat global warming and support trade unions. But Mr Obama – and the nation – would be better served if he concentrated for his first year on stabilising the economy while patiently laying the groundwork for more far-reaching proposals.

The hallmark of this economic crisis has been its capacity to surprise: the desperate plight of the "Big Three" US carmakers is the latest reminder. We can expect more surprises as the US and global economies continue to weaken rapidly. Consumer confidence has plunged. Worldwide manufacturing production is declining at an 8 per cent rate. Germany is in recession; China's growth has slowed sharply.

Against this backdrop, the dual pursuit of crisis management and sweeping domestic reform is at best distracting. In practice, it may be politically poisonous. Superficially, the two objectives can be made to seem compatible. Mr Obama can plug "green" investments as a way to restore job growth; he can tout a more efficient health care system as a way to control health costs. But these rhetorical debating points obscure as much as they reveal. Any programme to refashion the energy and health care sectors would be complicated and contentious. Some producers and consumers would win; others would lose.

In normal times, Mr Obama's campaign agenda ought to be front and centre. But these are not normal times, and what's most important now – as he repeatedly emphasises – is to stop the recession from feeding on itself. This is a clear danger. Consumer spending (70 per cent of the US economy) has declined for five consecutive months.

The compelling case for a big "economic stimulus" package is that it would cushion this and other spending declines. Mr Obama wants Congress to pass a stimulus package soon after he takes office. Assuming he gets his wish, it's then that he must make his crucial choice.

The temptation will be to press ahead with a "bold" legislative agenda – to ape the New Deal. This would be a mistake. Bruising legislative battles will not bolster confidence. The US does need to face its health and energy problems, as well as deficit-ridden federal budgets. But trying to do too much too soon risks doing none of it well. Mr Obama's first job is to avert an economic freefall.

Robert Samuelson is a Washington Post columnist

Big Brother makes a grab for control of the internet

Philip Bowring

The control freaks running Hong Kong's increasingly politicised bureaucracy are close to snaring another victim: the internet. The medium which should be a key part of the city's intellectual and artistic freedom is set to come under the direct control of government appointees. It is a major blow to Hong Kong's development as a centre for information technology and free media.

At stake is the domain name ".hk". Hitherto, this has been administered by the Hong Kong Internet Registration Corporation (HKIRC), a non-profit company run by representatives of internet users and providers, plus universities, with one government appointee. It has performed efficiently and at low cost.

The government is moving to take control on the grounds that the .hk domain name is a public resource. Indeed, it is just that – which does not give the government the right to control it rather than allow the public at large, and the internet community in particular, to run it.

Under the scheme, instead of 13 directors from varied interests, it will in future have eight; four elected by local stakeholders and four appointed by the government, including a chairman with the deciding vote.

The underhand way in which the government has gone about this is typical. In 2006, it commissioned a consultancy study into the structure of .hk. It concluded that "an arm's-length, non-profit organisation should be retained in the near term".

The government appeared to accept this but so twisted the notion of "arm's length" that it came up with a system that puts Hong Kong not in the same category of independent management as most developed countries but in one that follows the Singaporean and mainland model of state control.

The government then conducted what it claims was a public consultation, but this was kept so quiet that the public was largely unaware of it. Some HKIRC directors initially objected to the move, saying the board could be reduced to eight members, but all should be elected. However, the government was determined to grab control. It made it clear that the HKIRC's mandate was in government hands and, if it did not agree to the proposal, the government could terminate the corporation's right to administer .hk. Despite opposition from some members, directors reluctantly agreed to the government formula, to ensure the "smooth continuity of operation of .hk domain names" and the continued employment of staff.

> The government has devised a system that follows the Singapore and mainland model of state control

Belatedly, this issue has received some media attention which has shown up further official dishonesty. In reply to one critic, the government claimed that "top domain names are all managed or supervised by the government and Hong Kong is no exception". But its own consultancy report notes that, for example, in Australia, Canada, Taiwan, and Germany, not-for-profit, non-governmental organisations were in charge. Only on the mainland and in Singapore was domain management a direct government responsibility.

The government will doubtless claim that its appointees are "independent" – just like the other unaccountable stooges on quasi-official bodies. But they will be able to use control of domain names for political purposes and lean on the internet service providers to co-operate in tracking "unpatriotic" content. This process may have already begun with a review of the Control of Obscene Articles Ordinance to clamp down on internet pornography. It will surely not succeed in that, but new legislation could easily be misused to crack down on other content.

No wonder Hong Kong failed in its bid to host the 2009 Asia/Pacific regional meeting of ICANN – the Internet Corporation for Assigned Names and Numbers. This body, which is the global organiser of domain names, is a non-profit NGO. ICANN's spirit is a world away from that of Chief Executive Donald Tsang Yam-kuen's apparatchiks. ICANN took its conference to Sydney.

Philip Bowring is a Hong Kong-based journalist and commentator

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Justice at last for Tigers' ruthless mastermind?

Paul Harris

It is heartening to read that the Sri Lankan army has recaptured much of the territory in northern Sri Lanka held for many years by Velupillai Prabhakaran's Tamil Tigers. A decisive victory by Sri Lankan government forces would at last bring peace and a return of prosperity to the war-torn country, and might also offer the prospect of justice for one of the world's most ruthless terrorist masterminds.

Few people remember that, from the 1930s to the 1980s, Sri Lanka was recognised as a leading Asian country, both in terms of economic growth and educational levels. It was identified in the 1980s as an "Asian tiger" which seemed to have the potential for the same sort of growth that has transformed Taiwan, South Korea and Hong Kong.

What went wrong is much disputed, but there is little doubt that the government of president Junius Jayawardene in the 1980s bears a heavy responsibility for deliberately increasing majority Sinhalese discrimination against Tamils as a political tool. Equally, irresponsible social attitudes on the part of the Sri Lankan ruling class led successive governments to neglect the plight of the poorest, leading to increasing desperation, in turn feeding the rise of extremism.

I studied Sri Lankan politics as an international observer for its 1994 general election. A few political facts overlooked in the propaganda crossfire merit mention. First, Sri Lanka, despite many shortcomings, is a strong democracy. Elections there are better organised and more punctiliously scrutinised than in Hong Kong. Second, a majority of Sri Lankan Tamils have always supported parties that favour continuation of a united Sri Lanka. Despite massive intimidation and terrorism by the Tigers, parties supporting division of the country have never had more than minority support among Tamils. The Tigers' demand for a separate northeastern homeland of "Eelam" is an undemocratic attempt by a minority to force its will on the majority.

Whatever justification there might have been for the demand for "Eelam" has been completely removed by the depraved conduct of the Tiger leadership. Operating a rigid totalitarian system of which Stalin would have been proud, the Tigers have systematically hunted down and assassinated prominent Tamils who supported a united, multi-ethnic Sri Lanka. Well before al-Qaeda popularised the suicide bomb, this form of terrorism was pioneered by the Tigers, who have also made extensive use of child soldiers and of child suicide bombers. Prabhakaran is said to personally choose boys aged 14 to 16 for recruitment to the "Black Tigers" suicide bomb squads.

Earlier this year I wrote that the great dream of the International Criminal Court was to end the centuries-old situation where the law has been, in the words of Jonathan Swift, "a spider's web which catches small flies but from which wasps and hornets break free". With movement at last in northern Sri Lanka, there is finally a chance that a large and malevolent hornet will be brought to justice.

Paul Harris is a barrister and was the founding chairman of Human Rights Monitor