

China can put its relations with the US on the right footing by focusing on reciprocity rather than trust, writes **Minxin Pei**

The first move

Chinese officials often bemoan the lack of trust between the United States and China. Here they obviously have a point. The two nations may be joined at the hip economically, but they eye each other warily on the geopolitical front. While Beijing suspects a grand American design to prevent it from becoming a respected global power, Washington fears that a resurgent Middle Kingdom could dominate Asia and threaten its vital security interests. Such mutual suspicion permeates the paradoxical US-China relationship: economic interdependence coupled with geopolitical competition. Two key questions flow from this relationship. First, can the two countries work harder to build mutual trust? Second, if gaining trust should prove impossible, can this paradoxical relationship be sustained? Chinese officials tell us that building mutual trust is not only vital to elevating US-China ties to a new level, but also possible. Unfortunately, they offer few

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concrete steps in that direction except for urging the Americans to abandon their “cold war mindset” (whatever that means). The lack of trust does not seem to bother American officials as much. In fact, Washington is far more interested in solving specific issues that periodically disrupt its relations with Beijing (such as China’s surging trade surpluses, sanctions against North Korea and Iran, and human rights abuses in China). Why is there such a disconnect between the Americans and the Chinese on the issue of mutual trust? The most plausible answer is that both sides, deep in their hearts, believe that building genuine mutual trust is a fool’s errand. As long as China and the US are governed by two opposing political systems, with each symbolising the apex of power of its respective political model (one-party regime vs multiparty democracy), mutual trust is all but impossible. There is an obvious difference between

how the Chinese and the Americans handle this harsh reality: the Chinese keep talking about trust as if it can be obtained, while the Americans do not. So, in the short to medium term, barring a dramatic transition to democracy in China (it is harder to imagine a transition to autocracy in Washington), we are perhaps better off forgetting about the trust issue. In that case, what about the sustainability of the co-operative-competitive relationship between Beijing and Washington? While it seems natural to worry that co-operation is difficult without underlying trust, in reality trust is not necessary for co-operation. Academic research and historical experience both suggest that what sustains co-operation is not the elusive variable of trust, but reciprocal acts of co-operation. In a classic study of co-operation based on computer simulation, *The Evolution of Co-operation*, Professor Robert Axelrod of the University of Michigan demonstrated that the most effective winning strategy for inducing co-operation is one that offers co-operation first and then sticks to tit-for-tat – or in other words, strict – reciprocity. By applying this strategy, players (or countries) that want to cement mutually co-operative relationships normally make a co-operative first move and then respond positively to acts of co-operation, and retaliate against cheating with cheating. More encouragingly, such a strategy can be applied to situations where both sides are apparently deadlocked in non-co-operative positions. Bilateral deadlocks can be broken if one side pushes the “reset” button and starts the game anew by offering concessions first. This powerful academic insight is particularly useful in the context of Sino-American relations. If trust is impossible, then the focus must be on reciprocity. More importantly, to sustain a mutually beneficial relationship, it is vitally important for one side to take a first step that is concessionary and co-operative in nature. China may currently be in the more favourable position to take such steps to inject more constructive dynamics into its ties with the US. Take the exchange rate issue, for example. China’s undervalued currency and huge current account surpluses have bedevilled Beijing-Washington ties. Political pressures are now rapidly building in the US for President Barack Obama to take retaliatory measures against China. Given that China is doing much better than the US economically, Beijing can



most certainly absorb the adjustment costs of a rising yuan. Needless to say, taking such a step would do a great deal to defuse bilateral trade tensions (and accelerate China’s economic rebalancing). Another case is sanctions against North Korea. Compared with the US, China is in a much stronger position to make Pyongyang honour its commitments on nuclear disarmament. A concrete step taken by China in demonstrating that it is serious about

regional stability and nuclear non-proliferation should be well received in the US, as well. To be sure, both are tough decisions for Beijing. But they are worth taking, to put Sino-American ties on a more solid and co-operative footing. **Minxin Pei is a professor at Claremont McKenna College and an adjunct senior associate at the Carnegie Endowment for International Peace**

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Blinded by rules

If you saw an eight-tonne hunk of steel rolling into the sea, would you be stupid enough to try stopping it with your leg? Most people would just get out of the way. Dockyard worker Lee Shing-leung didn’t do that. He tried to stop it with his right leg. Maybe he was indeed stupid, but in his mind he was just doing his job. He lost the leg. That was three years ago. He’s been hobbling around on crutches ever since, trying to squeeze blood from a stone. Well, not exactly. He’s been trying to squeeze HK\$1,280 a month in disability allowance from the government. That was him being stupid again: he should have tried the stone, instead. Any thinking person who sees a 60-year-old crippled labourer with a limited education would conclude he’ll have a hard time getting a job, especially in Hong Kong where most employers regard the disabled as a liability. But by their very nature bureaucrats are not thinking people – ours even less so, since they serve an unelected government whose survival is not dependent on thinking like the people. That’s why our bureaucrats did not conclude that Lee had little chance of finding work. They didn’t think of him as a person. Their thought process capabilities are limited to the narrow confines of their rules and regulations. Anything outside that represents a brave new world of independent thinking which is alien to them. When Lee applied for disability allowance the bureaucrats – aided by equally bureaucratic government doctors – did not see a manual labourer with a missing leg nearing old age, which made him virtually unemployable. They robotically reached for their rule books, which instructed them to regard Lee as a robot, too. So they saw a machine with a damaged part but still in 40 per cent working order. Five times he applied for help. Five times they saw a 40 per cent functioning machine.

You may see Lee as simply an unfortunate fellow who’s somehow fallen through the cracks of a government support system. Or, like the bureaucrats, you may even consider him greedy for wanting public assistance when he’s still got two arms and a leg. But if we have rules to filter out questionable greed, why aren’t they equally applied to, say, property developers who dupe you with fake sea views or exaggerated flat sizes? Who is greedier: the one-legged Lee who wants a HK\$1,280-a-month government disability allowance because no one will hire him, or tycoon Lee Shau-kee, whose company marketed a 46th-floor penthouse as the “lucky” 88th floor to fetch a higher price? It is easy to dismiss labourer Lee’s luckless three-year odyssey as just one of those things we should not read too much into. Actually, you can read a lot into it. Do not see it as a simple case of someone unqualified for disability allowance. Look instead at the rigid rules that disqualified him.

Rigid rules landed an ice-cream vendor in court for selling candy as well; and an elderly, partially disabled woman hawkker for selling combs on a street corner. But where are the rigid rules for the supermarket chains that fake sales? Or the rich businessmen who deface our countryside with private villas? Lee’s case is not the reason why there is now such a gaping disconnect between the people and the government, why there is growing animosity towards the elite, and why people feel we have an unfair system. There is no one single reason. But it can help you understand why there are such sentiments. When the bureaucrats said “no” to Lee, it wasn’t because of the HK\$1,280. They just couldn’t see his side of things, only theirs. They can see why the business community wants a pricey, high-speed rail link to Guangzhou, but not why parents want money spent on smaller class sizes for their children. They can see why property developers fear government-subsidised homes for hard-pressed families, but not why hard-pressed families want such homes. Lee helped us see more clearly this government blindness.

Michael Chugani is a columnist and broadcaster

Voices: Hong Kong

We’re behind the curve on mandatory retirement

Frank Ching
Caring for the elderly is going to be a major concern for Hong Kong. The chief executive touched on it in his 2008 policy address, saying: “The number of people aged 65 or above is expected to increase to 2.17 million by 2033” – a quarter of the population expected then. But not enough thought is being given to allow such people to help themselves and society by continuing to work, if they want to, rather than forcing them to retire at a certain age. Asked about the possibility of raising the retirement age, Secretary for Labour and Welfare Matthew Cheung Kin-chung told Legco that Hong Kong did not have a mandatory retirement age: “employees and employers are free to negotiate on a mutually agreed basis for a suitable retirement age”, he said. That is being disingenuous. How many people are able to negotiate with their employer on a “mutually agreed basis for a suitable retirement age”?

The government is Hong Kong’s biggest employer. Does it negotiate with individual civil servants about an acceptable retirement age? Of course not. The government not only imposes a mandatory retirement age, but it implicitly supports one for the private sector as well, by ending contributions to the Mandatory Provident Fund once an employee reaches the age of 65. It is simply not good policy to make people who are highly educated, experienced, talented and healthy stop working – and to stop

paying taxes – in order to be supported by other taxpayers. At root, the problem is one of age discrimination. But the government is clearly unprepared to enact new legislation now, with the race discrimination ordinance only having come into effect last year. But there are things that can be done without government action. Universities, for example, are free to change their retirement policies. Currently there is no uniformity. Among the three top universities,

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the University of Hong Kong and Chinese University have a retirement age of 60, while the Hong Kong University of Science and Technology lets professors teach until 65. But setting any age for mandatory retirement is arbitrary. In a society like Hong Kong, where the birth rate is low and longevity high, it is self-defeating. Other jurisdictions have already moved ahead. The University of Toronto ended mandatory retirement in 2006. In fact, universities in Canada and the United States generally do not have a mandatory retirement age. Hong Kong is behind the curve. A professor reaching retirement

age is clearly qualified for the job and may be an extremely good teacher whose publications have helped make a name for himself and the university. Why should someone like that be put out to pasture? Some of our leading academics will receive offers from other institutions as their mandatory retirement approaches, and the exodus from Hong Kong will begin. This is not the way to strengthen our universities: we are moving from a three-year to a four-year system, meaning a 33 per cent increase in the size of the student body. A headline in Friday’s *South China Morning Post* about the new, four-year degree system read: “Wanted: 1,000 professors for HK universities”. This seems like an excellent time for universities here to end mandatory retirement, keep those who want to continue working and absorb new blood at the same time. Like other employers, universities will eventually want a system for getting rid of deadwood while keeping those who are sharp and productive. That can be done by using other criteria – not a retirement age applied blindly to one and all. **Frank Ching is a Hong Kong-based writer and commentator. frank.ching@scmp.com**

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Voices: Air quality

A subsidy to drive off old, polluting vehicles

Joanne Ooi
Up to 90 per cent of all nitrogen dioxide and particulate matter emissions at the roadside come from commercial diesel vehicles, including buses and trucks. Most of the emissions come from engines that do not meet European emission standards or those that meet only the lowest standard. Two measures could substantially clean up these polluting vehicles. First, the government could offer a subsidy to encourage owners to scrap their pre-Euro and Euro I vehicles. A 2007 scheme offering owners a subsidy to replace these vehicles met with decent success: just under 30 per cent of all eligible vehicle owners took advantage of it, and HK\$700 million of the HK\$3.2 billion fund was ultimately distributed. But, by March this year, there were still approximately 36,800 pre-Euro and Euro I commercial diesel vehicles on the road. According to public feedback on the subsidy, many owners did not take up the subsidy for several reasons – one of which was the lack of an option to just retire the vehicle. The unused funds from the expired 2007 subsidy scheme – HK\$2.5 billion – could be used to encourage owners of these trucks and non-franchised buses to scrap their vehicles. To motivate the hold-outs, the government could also introduce a stick commensurate with the carrot: with each passing year, the vehicle owner could be made to pay a disproportionately higher licence renewal fee, while the incentive to scrap the vehicle dwindled in inverse proportion, until, say, year 20, when scrapping became

compulsory. That way, all owners would be strongly motivated to take advantage of the scrapping incentive as soon as possible. Based on a rough calculation of the number of pre-Euro and Euro I commercial diesel vehicles still on the road today, multiplied by the average subsidy awarded under the expired scheme, a scrapping subsidy would cost HK\$1.6 billion. That leaves us with the question of how to clean up the oldest franchised buses, a much thornier issue. The idea of a subsidy offends some environmentalists because, to their minds, the polluter must always pay. But, in this case, what is needed is compensation paid to bus companies that have property rights lawfully vested under the franchise agreements and tax code. Under the principles of contract law, bus companies must be compensated for lost depreciation allowances and the foregone use value of prematurely retired buses. Only then would it be reasonable for the government to insist that bus companies invest in new Euro V or hybrid buses. Bus companies, and not the Hong Kong treasury, will have to buy those new buses. The undepreciated value of Euro I and II buses at the beginning of 2013 will be HK\$147 million. (At that point, there will be no more pre-Euro buses on the road.) The compensation is a matter of negotiation between the bus companies and the government. Such a scheme would benefit bus companies while immediately cutting emissions along Hong Kong’s busiest corridors. **Joanne Ooi is the chief executive officer of Clean Air Network**

Voices: Technology

Few secrets in world of digital mirrors

Esther Dyson
Suppose a group of workers frequently communicate among themselves, and then suddenly one of them gets left off all the “copy-tos”. What could it mean? “It could be that they’re planning a surprise birthday party,” says Elizabeth Charnock, whose company, Cataphora, analyses e-mail traffic and content as well as other documents, primarily for clients involved in litigation and crime detection. “It’s more likely that they’re planning to engage in fraud and they know this one person won’t go along with it. “All abnormal behaviour may not be bad,” says Charnock, “but virtually all really bad behaviour is abnormal.” Now she and Cataphora are applying their analytics to a different market: people who want to analyse their own e-mail correspondence to see a reflection of their interactions with others. Call it a visualisation of your social graph in action. With Cataphora’s new software tool called Digital Mirror, you can see the top asymmetries in your own relationships: whom you respond to before others versus whom you postpone, reschedule or otherwise delay – and who does the same to you. The software works by analysing not just the “shape” of a conversation – who writes to whom, who answers, and when – but also the content. What are the key words? And what – judging by everything from words such as “must” or “immediately” to slang or profanity – is the tone? The result is a startlingly clear look at what is going on in a circle of people: who defers to whom, who takes charge, who passes the buck.

Of course, transparency is unsettling – whether it’s seeing your own wrinkles in the mirror or confirming unpleasant aspects of how others treat you. And it’s difficult, owing to people’s reluctance to confront one another – or themselves. Once you see your own digital reflection, will you improve your behaviour? Despite the discomfort, wouldn’t you rather answer to a piece of software than confront your friends’ candour face-to-face? Conversely, if someone at work is bothering you, you don’t need to tell them directly; just e-mail them a link to Digital Mirror. Indeed, I suspect that the people who need Digital Mirror the most are the ones who will recognise that need the least. Still, it may help the semi-self-aware to be more aware of the trade-offs they make when they favour one person over another. This all reflects a trend towards greater clarity in our relations. Facebook and other social tools operate under the covers: Facebook notices which friends you interact with and whose photos you comment on in order to select the items in your news feed or the adverts you see. But Facebook does not show that information to you. Digital Mirror does. Such transparency will probably be commonplace in a few years, both from Facebook and from ad networks and behavioural targeters trying to derive information about your likely purchases. But right now, Digital Mirror is one of the few to give you the ability to do the same for yourself. **Esther Dyson, chairman of EDventure Holdings, is an active investor in a variety of start-ups around the world. Copyright: Project Syndicate**