opinion

China's financial tightrope

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THE GLOBALIST

Rumor has it that China is set to accelerate the deregulation of its financial system.

For years, China has restricted the ability of its residents and foreign investors to pull and push their money in and out of the country. While that may be illiberal, there was a sound reason for this restriction: Every emerging market that has scrapped these regulations has had a major financial crisis and subsequent trouble with growth.

The world can't afford for that to happen in China. China is too big to fail.

This issue came to the fore last year when the People's Bank of China (PBOC) announced that it might "liberalize" its financial system in five to 10 years. This move stood in stark contrast to a Chinese National Development and Reform Commission (NDRC)-World Bank report that put such a plan much further into the future. That study cited the overwhelming evidence that shows, first, that dismantling cross-border financial regulations is not associated with growth and, second, that it tends to cause banking crises in economies with fledgling financial systems.

But now, Guan Tao, a director general in the State Administration of Foreign Exchange has announced that "capital account convertibility" — as wonks call financial globalization — should happen in just a few years' time. Indeed, last week China started raising the ceiling on the amount of foreign speculation in China.

Why the rush? Guan Tao says it's about making the yuan a global currency. No doubt, in the long run it sure would be good to have more than the U.S. dollar on offer in the world economy. The dollar is increasingly a risky bet. Trading in yuan would reduce exchange-rate risk for one of the world's largest trading nations (and its trading partners) and global risk by alleviating the over-reliance on the dollar.

That said, China should not put the cart before the horse. To get where it wants to be and deserves to be, China will need to carefully reform its interest rate, exchange rate and financial regulatory regimes first. Managing these reforms successfully will be close to impossible to achieve with a deregulated capital account. Financial stability is essential for China to move on with necessary reforms and maintain growth — let alone political stability.

Interest rates in China have been kept low to provide cheaper loans for industry. This has been very beneficial, playing a key role in a Chinese industrial policy that spawned the world's manufacturing export powerhouse. However, at this point China's investment rates are too high and China needs to consume more.

Low rates moved households to over-invest in real estate and have caused a real estate bubble in the country. If China deregulated cross-border financial regulations before reforming its interest rate policy, there could be enormous capital flight out of China. Low interest rates in China, juxtaposed with higher rates available abroad, would provide an attractive rate of return for wealthy Chinese. While China has taken small steps in interest rate reform, it has a long way to go.

Capital flight would also jeopardize China's exchange rate reform, which has made great strides over the past two years. Exchange rate reform has made the yuan appreciate significantly, with estimates of yuan appreciation now at 35 to 50 percent.

Regulating capital flows is essential for the exchange rate to fluctuate relative to economic fundamentals rather than whim.

Capital flight could cause a major depreciation of the currency that could hurt consumers by further weakening their purchasing power, and stall reform.

China will also need to continue financial regulatory reform. China's big banks are still indirectly responsible for large amounts of nonperforming loans and are increasingly intertwined with a shadow banking system that is not properly regulated. These banks need serious reform — or they will not be able to compete with international financial firms upon liberalization.

The global record is clear: When Latin America prematurely opened its doors to foreign finance in the 1990s, domestic banks got wiped out. The new dominant players — foreign banks — didn't lend to domestic firms with innovative new ideas. That undermined growth and economic transformation, resulting in anemic investment rates, de-industrialization and very little inclusive growth.

The International Monetary Fund's own (and other) research shows that capital flows are susceptible to massive surges and sudden stops. These trends have only intensified since the global financial crisis.

For a while, there was a surge in capital flows to emerging markets due to low interest rates in the industrialized world, which made things look good. Now that the U.S. Federal Reserve has hinted its bond buying programs will slow, capital is fleeing from emerging market countries. But even before that trend occurred, things were more bubbly than rosy. During the 2009-2013 period, when capital flowed in, exchange rates appreciated. That hurt export prospects and caused asset bubbles.

Now that exchange rates are depreciating, all those loans from the credit bubble are more expensive because they are denominated in dollars.

China's ambitions aside, the fundamental economic lesson is clear: Regulating capital flows is essential for the exchange rate to fluctuate relative to economic fundamentals — rather than the irrational whims of speculative finance. Indeed, there is now a consensus among economists and international financial institutions that capital account liberalization is not associated with economic growth in emerging markets, and that it causes banking crises (especially in nations with fixed exchange rates).

Such evidence has even prompted the IMF — the very institution that once saw rapid capital account liberalization as a No. 1 — to change its tune. The IMF now officially recommends the cautious sequencing of capital account liberalization.

China should remember with pride that it was not as severely affected by the financial crises of the 1980s and 1990s in Latin America and East Asia. These were crises where capital account liberalization played a big role. Large countries such as Indonesia were set back by as much as a decade. Why did China not experience the same disaster? Because it prudently regulated cross-border capital flows.

If China does not now proceed with great caution, few countries will weather a financial crisis when it hits China. All around the globe, we are reliant on China for trade, investment and finance.

China is too big too fail. Thus, it is in the interests of the United States and the rest of the world to urge China not to deregulate its financial system. But most of all, it's in China's very own interest.

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End NSA's bulk collection of telephone records

Mark Udall and Ron Wyden
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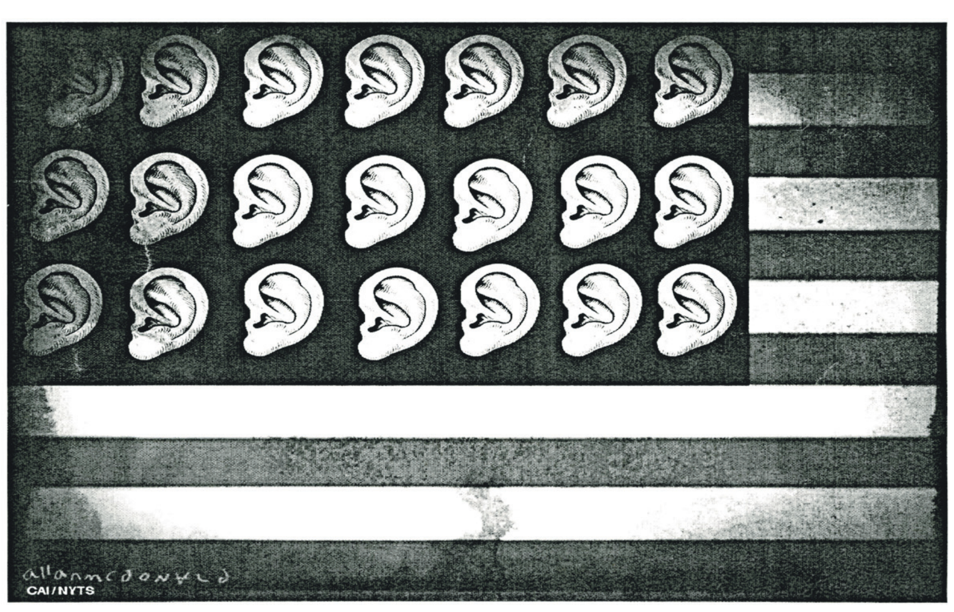
THE WASHINGTON POST



U.S. President Barack Obama recently welcomed a public debate about how to protect both national security and privacy rights in the context of the National Security Agency's domestic surveillance activities.

Congress should not squander this opportunity to have an open, transparent discussion about the limits of executive power and the surveillance of Americans.

We believe that, when presented with all the facts, most Americans would agree with us that the White House should end the bulk collection of Americans' phone records and instead obtain this information directly from phone companies, using regular court orders based on individual suspicion.

We have had concerns about domestic surveillance authorities for several years. Through our oversight work on the Senate Intelligence Committee, we have become convinced that the government needs to scale back overly intrusive surveillance activities to better protect Americans' constitutional privacy rights and that this can be done while protecting U.S. national security. We have not been able to fully engage the public on these issues because the executive branch insisted on keeping its interpretation of the law secret.

Although we would have preferred that this discussion had been sparked by a more transparent executive branch, rather than by unauthorized leaks, we welcome an open debate about the federal government's dragnet collection of Americans' phone records under Section 215 of the USA Patriot Act.

Our view of this program is shaped by our experience with the NSA's bulk e-mail records collection program. Concerned about this program's impact on Americans' civil liberties and privacy rights, we spent a significant portion of 2011 pressing intelligence officials to provide evidence of its usefulness. They were not able to do so, and it was shut down that year. This experience demonstrated to us that intelligence agencies' assessments of the effectiveness of particular collection programs are not always accurate, and it led us to be skeptical of claims about the value of collecting bulk phone records.

The federal government's collection of phone metadata under the Patriot Act sucks up records on millions of law-abiding Americans daily. We believe that large-scale collection of personal information by the government seriously infringes on Americans' privacy. The details of whom Americans call, when they call and where they call from is private information. In our opinion, the government's ongoing, overly broad collection is not authorized under a straightforward interpretation of the Patriot Act or any other law.

The White House ought to end this dragnet and sharpen its focus on the terrorists and spies who truly threaten our nation's security.

For our part, Congress should pass the legislation that we have introduced that would stop the bulk phone records collection program and ensure that the executive branch does not have the authority to again intrude so far upon Americans' constitutional rights.

While still allowing law enforcement and intelligence agencies to obtain a wide range of records, our bill, which is supported by members of both parties, would require the government to demonstrate that any private records obtained for intelligence purposes are in some way connected to terrorism or clandestine intelligence activities — an explicit requirement that does not exist in the law today.

Terrorism is a serious threat to our country, our economy and to American lives. Our government needs appropriate surveillance and anti-terrorism tools to combat serious threats to our nation.

But it is incumbent on the White House and Congress to ensure that those tools protect Americans' privacy rights while also keeping Americans safe.

The Patriot Act's bulk phone records collection program does not achieve these goals and, in our view, the NSA has not demonstrated that it is necessary for innocent Americans to give up their privacy when it comes to their phone records.

In recent weeks, intelligence officials have made new assertions about the value of the declassified NSA surveillance programs. In doing so, they have conflated two programs — the collection of the content of communications under Section 702 of the Foreign Intelligence Surveillance Act, and the bulk collection of Americans' phone records under Section 215 of the Patriot Act.

The suggestion that "these programs" have disrupted "dozens of potential terrorist plots" is misleading when it hasn't been demonstrated that the bulk phone records collection program provides a unique value.

It may be more convenient for the NSA to collect phone records in bulk rather than asking phone companies to search for specific numbers, but convenience alone cannot justify the collection of millions of Americans' personal information, especially when the information the government actually needs can be obtained by less intrusive methods.

A few hundred court orders per year would not overwhelm the Foreign Intelligence Surveillance Court, and emergency authorizations could be used in urgent circumstances.

We urge the administration to end bulk collection of Americans' phone records. We will push to pass our legislation, which would effectively do the same — and thereby focus this country's counterterrorism and espionage efforts on the real threats to our national security.

Mark Udall and Ron Wyden, both Democrats, represent Colorado and Oregon, respectively, in the U.S. Senate.

Right royal load of parochial hot air

Kevin Rafferty
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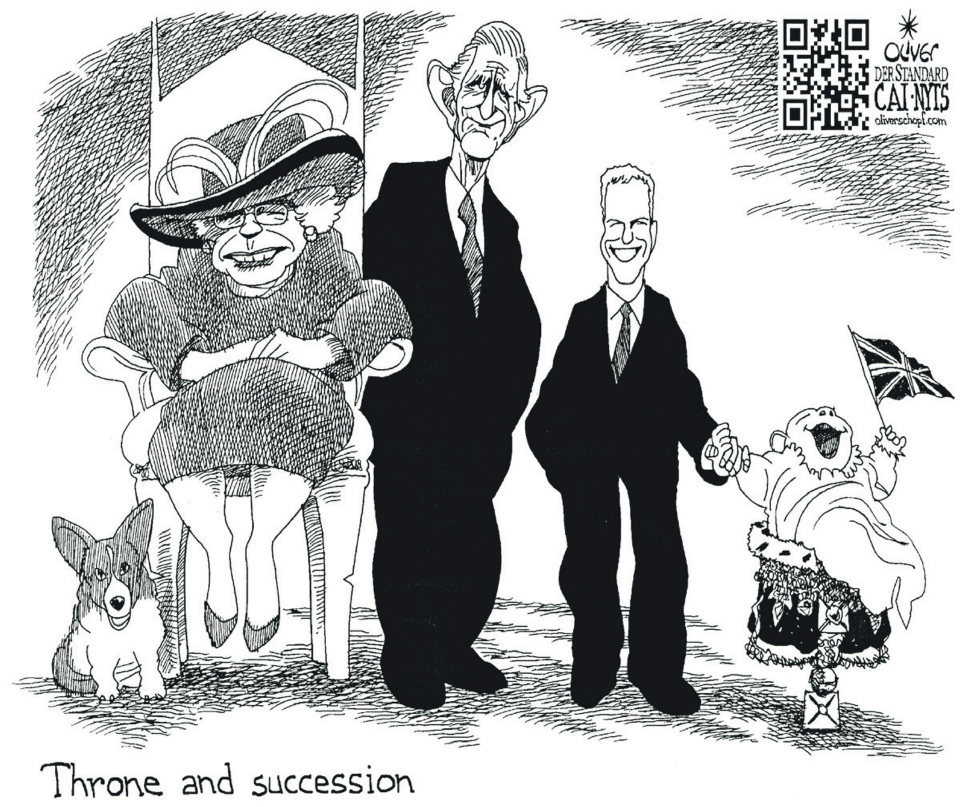
SPECIAL TO THE JAPAN TIMES



Throne and succession

So, quite quickly, we learned the name of the new British Prince of Cambridge. He is George Alexander Louis, or a boy named GAL — an interesting thought. Rarely, maybe never, in the ages of media commentary has so much empty hot air been expended by so many people over something so insignificant.

I am referring specifically to BBC World television coverage of the arrival of George Alexander Louis, which was wall to wall with gush and coo and mush, morning to night, for hours and days before the 8-pound-6-ounce (3.8 kg) boy emerged, and then rejuvenated for days after his birth with mindless prattling about what he would look like when he finally appeared. Would he look more like Kate or William (surely that is lese majeste to talk of the duke and duchess as if they were the BBC's own children).

It was a disgrace. Lord Chris Patten as the chairman of the BBC Trust should call in Lord Tony Hall, the director general, show him a world map and point to the insignificance of the United Kingdom in the global scheme of things. He should urge him not to squander the reputation of BBC World by pushing parochial British matters.

"The eyes of the world are on London," trilled one newsreader.

What total garbage: Tens of millions of people in Brazil were more interested in the visit of Pope Francis; Indians were anxious about the safety of food being fed to their schoolchildren; Japanese were wondering how Shinzo Abe will cope with his new power as prime minister with a parliamentary majority; Chinese were worried about their precarious economy; millions in the Middle East were trying to stay out of harm's way; and several billions of people were preoccupied with their daily survival in turbulent economic times.

"There is only one story," claimed another newsreader, ignoring the fact that The Guardian had another political story on its front page; and that the Financial Times thought that the admission by GlaxoSmithKline that some of its executives may have breached China's laws was of much more moment than the birth of a baby who in 50 years time may get the lead role in a 300-year-old fancy dress pageant.

It was not the first time that the BBC has lost its sense of reality. The wedding of Prince William and Catherine Middleton and the death and funeral of Margaret Thatcher were other recent occasions when the corporation forgot the rest of the world to play host to the British pageant of pomp and ceremony that means nothing to the real world and less still to the rest of the world. But on those occasions there was something to see — good music and beautiful people as well as the opportunity to watch the crocodile tears of Thatcher's opponents, who at least saw her off.

This time, there was nothing to see — just empty stages outside St. Mary's Hospital and outside Buckingham Palace filled with hundreds of hungry news hounds speculating on when the baby would make an appearance, what sex it would be and what it would be called. They were kept waiting for four hours after the actual birth to receive the public announcement so that the royal couple could practice their bonding with the newborn.

At least BBC reporter Simon McCoy had the grace to admit after seven hours of the farce that "Plenty more to come from here (of course, none of it news." He paused then added, "... because that'll come from Buckingham Palace. But that won't stop us."

Yes, the British royal family has a big following, not only in the U.K. but also in the former colony of the United States. The sight of hundreds of people gawping and taking pictures of an easel just inside the railings of Buckingham Palace with a single piece of paper and four indecipherable signatures on it, testifies to how royalty fills a gap in too many empty lives.

Experts on branding say that the British monarchy is worth £53 billion, and the birth of the new prince may add another billion or so to the British economy this year. That shows the power of marketing and the gullibility of too many people. But for most of the coverage, there was no prince; and even when he appeared, it was a brief not even a walk-on part with no speaking lines. In the fullness of his years, the prince will not command armies or make momentous political decisions. Few people will bless him for their daily bread or rice.

Perhaps by broadcasting endlessly on BBC World, the domestic BBC was able to push some of the costs of coverage onto the global channel. Shame on both.

Patten should surely be worried for the reputation of the BBC. The BBC is the last still sparkling jewel of a vanished empire, but it is losing its luster. The coverage of the prince was at the extreme of two tendencies: the assumption by domestic editors that the rest of the world cares about parochial British events; and the determination of editors to chase fire engines with little thought or coverage of what caused the fire.

It would have been obvious but interesting to compare and contrast the lives and prospects of the new prince with another baby born on the same day in India or Ecuador or Ethiopia or the West Bank, but it did not occur to the BBC to tear its cameras away from London.

Even in normal times, BBC World coverage is fixated on shortsighted short-term events. They just want to *be* there without considering what they are really looking at or the implications or background of momentous events.

Like all journalists they go for crash-bang-wallop events, earthquakes, bombs, crashes, terrorist activity that win the epithet "news," while momentous economic and social movements do not get attention. The prime example was the bombing of the Boston Marathon, where the breaking news came with Tweeting; the old media television crews were left talking to the air.

Even on a normal day, BBC World television coverage is shallow. Its business commentators cheer if markets go up — that is a good day — or lament if markets fall. A market is a market, for heaven's sake, and it goes up or goes down according to the whims and fancies of "investors," who these days are computer-driven funds with the attention span of a gnat and the social understanding of a computer.

At the weekends, when news editors, along with doctors, dentists, bankers and bureaucrats, believe that the whole world has the luxury of two days off and nothing is happening, BBC World offers a mix of reruns of old news and soft "think-piece" features (some of which are reruns first shown months ago) offering the world's problems solved in simple salami slices.

It is not good enough. The best result that could come out of the shameful waste of expensive hot air over the little prince would be an outcry urging the BBC to rescue its reputation with a better product befitting a complicated and fragile world.

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A maddening category in which America soars

Liah Greenfeld
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The relative global decline of the United States has become a frequent topic of debate in recent years. Proponents of the post-American view point to the 2008 financial crisis, the prolonged recession that followed and China's steady rise. Most are international relations experts who, viewing geopolitics through the lens of economic competitiveness, imagine the global order as a seesaw, in which one player's rise necessarily implies another's fall.

But the exclusive focus on economic indicators has prevented consideration of the geopolitical implications of a U.S. domestic trend that is also frequently discussed, but by a separate group of experts: America's ever-increasing rates of severe mental disease (which have already been very high for a long time).

The claim that the spread of severe mental illness has reached "epidemic" proportions has been heard so often that, like any commonplace, it has lost its ability to shock. But the repercussions for international politics of the disabling conditions diagnosed as manic-depressive illnesses (including major unipolar depression) and schizophrenia could not be more serious.

It has proved to be impossible to distinguish, either biologically or symptomatically, between different varieties of these conditions, which thus constitute a continuum — most likely of complexity, rather than severity. Indeed, the most common of these illnesses, unipolar depression, is the least complex in terms of its symptoms, but also the most lethal: 20 percent of depressed patients are estimated to commit suicide.

Both manic-depressive illness and schizophrenia are psychotic conditions, characterized by the patient's loss of control over his or her actions and thoughts, a recurrent state in which one cannot be considered an agent with free will.

Obsessive suicidal thinking and paralyzing lack of motivation allow depressed patients to be classified as psychotic as well.

These conditions are often accompanied by elaborate delusions — images of reality that confuse information generated in the mind with that provided from outside.

Often the distinction between symbols and their referents is lost, and patients begin seeing people solely as representations of some imagined force. The judgment of such people cannot be trusted, to put it mildly.

A massive statistical study, conducted from 2001 to 2003 by the U.S. National Institute of Mental Health (NIMH), estimated the lifetime prevalence of major depression among American adults (ages 18-54) at more than 16 percent. Lifetime prevalence for schizophrenia was estimated at 1.7 percent. There is no known cure for these chronic diseases; after onset (often before the age of 18), they are likely to last until the end of the patient's life.

Surveys among U.S. college students estimated that 20 percent fit criteria for depression and anxiety in 2010, and that nearly 25 percent fit these criteria in 2012.

Other studies have consistently shown rising rates of prevalence with each successive generation, and it is argued that, if older statistics were faulty, they erred on the side of *underestimating* the spread of mental illness.

All of this suggests that as many as 20 percent of American adults may be severely mentally ill. In view of disputes over the significance of available data, let's assume that only 10 percent of American adults are severely mentally ill. As these conditions are presumed to be distributed uniformly within the population, they must afflict a significant share of policymakers, corporate executives, educators and military personnel of all ranks, recurrently rendering them psychotic, delusional and deprived of sound judgment.

If it is deemed sensationalist to characterize this situation as terrifying, one may add that a much larger share of the population (estimated at close to 50 percent in the NIMH study) is affected by less severe forms of mental disease that only occasionally disturb their functionality.

Comparative epidemiologists have repeatedly noticed something remarkable about these illnesses: Only Western countries (or, more precisely, societies with monotheistic traditions) — particularly prosperous Western countries — are subject to prevalence rates of this magnitude.

Southeast Asian countries appear to be especially immune to the bane of severe mental illness; in other regions, poverty or lack of development seems to offer a protective barrier.

As I argue in my recent book "Mind, Modernity, Madness," the reason for high concentrations of severe mental illness in the developed West lies in the very nature of Western societies. The "virus" of depression and schizophrenia, including their milder forms, is cultural in origin: The embarrassment of choices that these societies offer in terms of self-definition and personal identity leaves many of their members disoriented and adrift.

The U.S. offers the widest scope for personal self-definition; it also leads the world in judgment-impairing disease.

Unless the growing prevalence of serious psychopathology is taken seriously and addressed effectively, it is likely to become the only indicator of American leadership. The rise of China is unrelated to this.

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