Barack Obama faces a dilemma: sell off the 'family silver' or return to protectionism, thus killing globalisation, writes **Joergen Moeller**

An open mind?

The rhetoric of incoming US President Barack Obama, combined with the Democratic Party's tendency to lean towards protectionism, augurs a much more America-first policy. In all likelihood, Senator Obama will have to retract some of his promises about protecting US jobs and re-examining free-trade agreements. But Asia might be in for a nasty surprise when it discovers what kind of protectionism a new administration, prodded on by Congress, may opt for.

In the 1930s, the world saw how the biggest economic powers succumbed to a strategy of shifting the burden of economic collapse at home to countries abroad. The US and Britain, the two economic superpowers, increased customs duties. The US enacted the Smoot-Hawley Tariff Act and Britain introduced imperial preferences. These measures proved counterproductive, as other countries retaliated, but it took several decades to digest the lesson.

In those days, countries protected local production by shutting the door to foreign imports. Now the temptation will be to protect corporations by shutting the door to the purchase of such corporations, or a minority shareholding in the same.

> Asian capital will move from being an outsider to ... owning some crown jewels of the capitalist economic system

The age of dissaving in the US has transferred not only purchasing power, but also capital, to China and other countries in Asia, and to the oil-exporting countries of the Middle East. Everything would look fine if these newly endowed countries would increase their imports by purchasing more goods and services from the US, thereby lifting American exports, generating higher employment and recycling the savings into the real, productive part of the US economy – but they are not doing so.

Asia can produce what it needs and does not want to buy from the US. The oil-exporting countries have a limited capacity to absorb imports, putting a ceiling on what they want to buy.

From the US perspective, both Asia and the oil-exporting countries could behave like good friends and just keep their US dollar assets in cash or bonds without making such a fuss about it.

But why should they do so? For years, they have allowed US consumers and the US government to use their savings, waiting for a time when the accumulated cash and bonds could be turned from a sterile asset into something of real value, opening the door for a transfer of technology and management know-how. Now their time has come.

The US financial system has collapsed and a string of American corporations can expect lower earnings in view of the recession. Many of these corporations will be desperate to find somebody willing and able to financially assist them over what they rightly consider to be a temporary problem. Fundamentally, these corporations are sound, and are able to generate revenue and profit for the owners, and jobs for their employees. But, right now, they are caught in the storm unleashed by Wall Street. If somebody other than Wall Street had created this cataclysm, these same corporations would have cried out for help from Wall Street, and this money machine would have come to the rescue. But with the potential rescuer playing the role of the villain, where to go?

The only places to find the money are Asia – in particular China – and the oil-exporting countries. It would have been their money, anyway, but Wall Street would have worked out a temporary credit arrangement with no prospect for a transfer of ownership. But now, the creditor is asking for his pound of flesh, and it is a shareholding that is demanded, not an offer of a loan facility.

America's corporations will fall back on these cash-rich countries and they will be ready for America. Ownership or influence over a considerable segment of the heart of the American enterprise system is a once-in-a-lifetime opportunity. Asian capital will move from being an outsider to a main player, owning some of the crown jewels of the capitalist economic system.

In mid-September, there were rumours that China Investment Corp would increase its share in Morgan Stanley. And it is not just the US that is a target. In early August, similar rumours suggested that the China Development Bank was interested in buying Germany's Dresdner Bank.

Some of the capital may come from private investment funds and some from sovereign wealth funds, but it will not change the fact that ownership of American corporations will move into foreign hands and, in some cases, into the hands of foreign governments.

Will America be willing to sell its family silver? Highly unlikely; but what then?

The strength of its commitment to globalisation will be tested. China and the oil-exporting countries have played by the rules for several decades, even if they may have questioned whether the road taken was really to their benefit. Now the tide has turned, and globalisation has offered them real benefits. If that is deemed foul play by the US because it is in an inferior position today, then there is a genuine risk that globalisation will crack.

Today, the US has no choice but to swallow its own medicine. Sell the family silver to keep globalisation intact or introduce restrictions on the purchase of corporations by foreign entities, thereby throwing economic globalisation into chaos? This is the critical dilemma confronting Senator Obama when he sits down in the Oval Office in January.

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Public failings

My article criticising RTHK for programmes that offer irresponsible investment tips to listeners attracted a swift response. But RTHK's defence reveals nothing but a total ignorance of the responsibility of a public broadcaster, which it clearly is not. In short, the justification for its financial programmes is that investment in financial products as a means of managing personal finance is very popular in Hong Kong, and is a way of life in an international financial centre like ours.

Nice try. This explanation indicates that RTHK is wrong in asserting that public broadcasting is about providing programmes for a mainstream audience. RTHK should know that a public broadcaster needs to uphold the interests of minorities and the underprivileged – to give them a voice – and provide programmes that commercial operators will not offer. Catering to mainstream tastes is the business of commercial broadcasters.

RTHK also said it has two programmes that provide investment education and risk assessment analysis. Nice try, too. These are no more than window dressing and, if they are as important as RTHK's management claim, why are they not on the mainstream Radio One channel?

RTHK might be right on one count; it says its programmes have never encouraged the public to invest in derivatives. But it cannot possibly argue that its programmes have never offered investment tips. It is still doing it, even after the global financial crisis has left many personal tragedies and corporate bankruptcies in its wake. Many people with spare cash have been calling RTHK's financial programme hosts hoping to get tips to buy cheap stocks, and the hosts liberally dish out their advice.

Many people recall that one of RTHK's financial programme hosts, who is also a senior management figure in a local financial newspaper, openly recommended Sinopec and Hong Kong Stock Exchange shares. These tips and recommendations created an unrealistic expectation of share prices. Over time, members of the public were led to believe that they could not go wrong by investing in blue chip shares. Such a myth is very pervasive, and when minibonds linked to blue chip shares were sold to ordinary investors, they readily bought into them.

> RTHK is an empire unto itself, which ... confuses its role with that of its commercial counterparts

To live up to its responsibility, RTHK should have warned the public of market risks, as Monetary Authority chief Joseph Yam Chi-kwong had been doing long before the subprime crisis emerged. Mr Yam sounded warnings during Legislative Council meetings and has written several articles about potential market risks. Had RTHK been taking its duties as seriously as Mr Yam, I believe many people would have been warned off those complicated and risky investment products.

Some have queried whether there is a conflict of interest for me to comment on the role of RTHK, as I am taking part in the setting up of a new commercial radio station. Those who have been paying attention would know that I have been urging RTHK to sharpen its focus on public-service broadcasting since 1998, when I headed the industry body representing publishers. Since then, I have been advocating that RTHK should not produce programmes on horse racing, Cantonese pop song awards and financial investments. My advocacy has nothing to do with my commercial broadcasting venture.

RTHK costs taxpayers HK$500 million every year. Its management has always regarded it as a "BBC-type" of public broadcaster, and used this as a means to help garner support from the public. In fact, RTHK is an empire unto itself, which answers to no one, and completely confuses its role with that of its commercial counterparts.

It is high time RTHK returned to the right path, if it wants to have a role in the future public broadcasting landscape, which is under review. At a time of austerity and challenges, after the financial tsunami, we badly need a public broadcaster to inform and educate the public on salient issues. Franklin Wong Wah-kay should demonstrate his leadership as director of broadcasting.

Albert Cheng King-hon is a political commentator

Other Voices

General view of a reinvented past

Kevin Rafferty

Japan was not an aggressor that brought death to 20 million Asian neighbours and wholesale misery to countless others. It was a peaceful, peace-loving, international-law-abiding country that was a victim of other countries' manipulation and aggression. Nevertheless, Japan's bravery in fighting back helped create the modern world of peace and plenty. Even so, poor Japan today suffers under the yoke of US occupation and illegal Russian and Korean seizure of its lands. Japan's defence forces are "bound hand and foot and immobilised".

Advocating any of these views would be controversial, but, if you link them all, you get, as a modern political historian might say, a big overstretch. Indeed, if they had been presented by a teenager in such a mishmash essay, they might have earned a B-minus for fertile leaps of imagination and an immediate F for failures in historical fact, logic and argument.

But they are not the views of a teenager: they were awarded the top prize of 3 million yen (HK$239,000) in an adult history essay competition that cost the author his job. The author was General Toshio Tamogami, until last week the chief of staff of Japan's Air Self-Defence Force.

Japan's defence minister, Yasukazu Hamada, said it was "highly improper" for the air force chief to express publicly views at odds with government policy. General Tamogami refused to resign and was dismissed, thus becoming Mr Tamogami, with a 60 million yen retirement allowance and a nice pension. Mr Hamada is about to ask parliament to demand the return of the allowance.

Far from being repentant, Mr Tamogami said he stood by his views and accused the government of "North-Korea-like" attempts to control freedom of expression.

Lieutenant General Edward Rice, head of the US forces in Japan, tried to play down the potential damage, saying it would not affect the US-Japan security alliance. "The government of Japan was very quick to underscore that [Mr Tamogami's views] were not the official views of the government of Japan or the Self-Defence Forces. I am personally satisfied that that is the case," he said.

Uncomfortable questions remain. Far from burying the essay, the government and Japan itself should conduct a reality check and look at themselves and the world.

> Six decades after the war, Japan remains more closed and self-absorbed than any other major country

The essay competition was organised by a hotel and property group and its title was "The true outlook for modern and contemporary history", which sounds innocuous until you remember that "true" is a buzzword for revisionist historians who want to absolve Japan of wartime blame. The chairman of the judges was a leading revisionist.

There were 230 entries, with 78 submitted by serving members of the Self-Defence Forces. Moreover, Mr Tamogami had submitted a similar essay within the armed forces before entering the competition. And Prime Minister Taro Aso was seen buying a book espousing similar views about history after the storm over the essay.

The title of Mr Tamogami's own essay is "Was Japan an aggressor nation?" It begins with the assertion: "Under the terms of the US-Japan Security Treaty, American troops are stationed within Japan. Nobody calls this an American invasion of Japan. That is because it is based on a treaty between the two nations."

Most of the next five pages are at the extreme right-wing end of revisionism, selectively using and stretching stray facts that suit while forgetting anything inconvenient. Thus, Japan's military presence in China and Korea was not an invasion but was obtained legally by treaty; the Japanese campaign of 1937 was a reaction to provocation after guerillas of "the Communist Party of Comintern puppet Mao Zedong (毛澤東)" infiltrated the Kuomintang and committed atrocities; the second world war was provoked by the Comintern and really triggered by covert US air attacks against Japan on the Chinese mainland, so the attack on Pearl Harbour was just a response that Japan was trapped into making.

Of course, Japan – according to Mr Tamogami – was a benign colonial power "laying out its vision for the five tribes – the Yamato [Japanese], Koreans, Chinese, Manchurians and Mongols – to intermix and live peacefully together". The most he will admit is that, "there were probably some [individual events] that would be called misdeeds".

Some Japanese "historians" swallow all of this, and forget Japanese invasions of China, the Philippines, French Indochina, the Dutch East Indies, Malaya and Burma, and disregard sweeping atrocities.

The former general says he does not want to repudiate the US security treaty, but claims the Self-Defence Forces' hands are tied. "Unless our country is released from this mind control, it will never have a system for protecting itself through its own power," he writes. "We have no choice but to be protected by America. If we are protected by America, then the Americanisation of Japan will be accelerated. Japan's economy, its finances, its business practices, its employment system, its judicial system will converge with the American system. Our country's traditional culture will be destroyed by the parade of reforms."

The irony is that America wants Japan to play a bigger role in its own and US defences. But the rest of the world will never be comfortable unless Japan accepts the responsibility for its colonial occupation and war – which it has done officially but too often with words that seem formulaic rather than honest. The essay and the fact that so many other serving Self-Defence Forces officers also competed raises doubts about how far revisionists have infiltrated Japan Inc.

More than 60 years after the war, Japan remains more closed and self-absorbed than any other major country. In a week when an African-American, the son of a Kenyan visitor, was elected US president, Japan was still proposing laws to allow children born out of wedlock to Japanese men and foreign women to obtain Japanese citizenship, but only if the father recognises the paternity.

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Path to the new woods

Joseph Stiglitz

The world is sinking into a major global slowdown, likely to be the worst in a quarter of a century, perhaps since the Great Depression. This crisis was "made in America", in more than one sense.

America exported its toxic mortgages around the world in the form of asset-backed securities. America exported its deregulatory free-market philosophy, which even its high priest, Alan Greenspan, now admits was a mistake. America exported its culture of corporate irresponsibility – non-transparent stock options, which encourage the bad accounting that has played a role in this debacle, just as it did in the Enron and Worldcom scandals a few years ago. And, finally, America has exported its economic downturn.

The Bush administration has finally come around to doing what every economist urged it to do: put more equity into the banks. But, as always, the devil is in the details, and US Treasury Secretary Henry Paulson may have succeeded in subverting even this good idea; he seems to have figured out how to recapitalise the banks in such a way that it may not result in resumption of lending, which would bode poorly for the economy.

Most importantly, the terms that Mr Paulson got for the capital provided to America's banks were far worse than those obtained by British Prime Minister Gordon Brown. Share prices show that investors believe they got a really good deal.

One reason to be concerned about the bad deal that American taxpayers are getting is the looming national debt. Even before this financial crisis, America's national debt was scheduled to increase from US$5.7 trillion in 2001 to more than US$9 trillion this year. This year's deficit will approach US$500 billion; next year's will be even larger, as the US downturn steepens. America needs a big stimulus package. But Wall Street's fiscal conservatives (yes, the same people who brought us this downturn) will now be calling for deficit moderation.

Now the crisis has spread, predictably, to emerging markets and less-developed countries. Remarkable as it may seem, America, for all its problems, is still seen as the safest place to put one's money. No surprise, I suppose, because, despite everything, a US government guarantee has more credibility than a guarantee from a third-world country.

As America sops up the world's savings to address its problems, as risk premiums soar, and as global income, trade and commodity prices fall, developing countries will face hard times.

Some – those with large trade deficits before the crisis hit, those with large national debts that must be rolled over, and those with close trade links to the US – are likely to suffer more than others. Those countries that did not fully liberalise their capital and financial markets, such as China, will be thankful that they did not follow the urging of Mr Paulson to do so.

Many are already turning to the International Monetary Fund for help. The worry is that, at least in some cases, the IMF will go back to its old failed recipes: fiscal and monetary contraction, which would only increase global inequities.

While developed countries engage in stabilising countercyclical policies, developing countries would be forced into destabilising policies, driving away capital when they need it most.

Ten years ago, at the time of Asia's financial crisis, there was much discussion about the need to reform the global financial architecture. Little – too little, it is now evident – was done. At the time, many thought such lofty appeals were a deliberate attempt to forestall real reform: those who had done well under the old system knew that the crisis would pass and, with it, so too would the demand for reform. We cannot let that happen again.

We may be at a new "Bretton Woods" moment. The old institutions have recognised the need for reform, but they have been moving at a glacial speed.

It took the world 15 years and a world war to come together to address the weaknesses in the global financial system that contributed to the Great Depression. It is to be hoped that it will not take us that long this time: given the level of global interdependence, the costs would simply be too high.

But, whereas the US and Britain dominated the old Bretton Woods, today's global landscape is markedly different. Likewise, the old Bretton Woods institutions came to be defined by a set of economic doctrines that has now been shown to fail not only in developing countries, but even in capitalism's heartland. The forthcoming global summit must face these new realities if it is to work effectively towards creating a more stable and more equitable global financial system.

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