

Misplaced optimism in Davos consensus

By RAZEEN SALLY
FOR THE STRAITS TIMES

THE mood in Davos late last month reflected the clear blue sky above the snow-capped peaks, where the chatter among 2,500 participants was mostly about Europe and the West, and less about the rest.

The prevailing mood was more upbeat than at any time since the outbreak of the global financial crisis (GFC). This year's "Davos consensus" was that the worst was over: The euro zone crisis had receded, better times were ahead for Europe; the United States had averted its fiscal cliff; and Japan, with freshly minted "Abenomics", was dashing for growth. However, I remain very sceptical about this consensus.

The Davos consensus was most pronounced on macroeconomic policy. Practitioners and experts displayed shades of grey on fiscal policy. International Monetary Fund (IMF) chief Christine Lagarde, reflecting the official IMF position, argued for fiscal "consolidation", though "paced" to prevent austerity-choking recovery. Others argued for looser fiscal policy. Hardly anyone held out for more stringent austerity to reduce public debt mountains in the West.

The consensus was firmer on monetary policy. Luminaries favoured continued monetary expansion, applauding rock-bottom interest rates and massive quantitative easing (QE) by the US Federal Reserve and the European Central Bank (ECB), as well as expected QE by the Bank of Japan. Many saw room for much more QE. Some even held up Japanese Abenomics - coordinated expansionary fiscal and monetary policies - as a role model.

I found this talk deeply worrying. Policymakers and macroeconomic experts are clearly willing to tear up the rulebook in which central-bank independence and inflation targets were adopted to defeat the scourge of inflation. Fiscal rules, such as a balanced budget over the economic cycle, were adopted to restore order to public finances.

Escalating public debt (over 80 per cent of GDP in the European Union, over 100 per cent in the US and 220 per cent in Japan) is considered "manageable", as is the huge expansion in central banks' balance sheets. This is dangerous complacency, sending all the wrong signals for saving, investment and entrepreneurship - wealth-creating activity, in other words.

Where does this leave Asia? The answer is, with the exception

of Japan, in much better shape than most advanced economies. Generally, Asian countries have quite low budget deficits and low levels of public debt (under 30 per cent of GDP on average). They are growing strongly - at about 7 per cent, compared with 1.4 per cent for advanced economies, according to the latest IMF forecasts for this year. And they are enjoying a "shift to the East": The short-term divergence of economic performance is accelerating the long-term convergence of Asian emerging markets on the West.

However, market reforms have stalled in most Asian countries. They still have repressive business climates that restrict domestic and foreign trade and investment, bloated public sectors, and especially restrictive markets in finance and energy.

With the exceptions of Hong Kong and Singapore, not one Asian economy is in the top 10 of the World Bank's Doing Business Index. Only five others (South Korea, Taiwan, Malaysia, Thailand and Japan) are in the top 25. The rest are way behind.

Generally, Asian economic institutions - public administration, enforcement of property rights and regulatory authorities, for example - are weak, and keep business costs high. Pervasive complacency on market reforms should temper sunny Asian optimism.

Now to look beyond the short-term to the medium-term prospects of the world economy's Big Three: the US, the European Union (EU) and China.

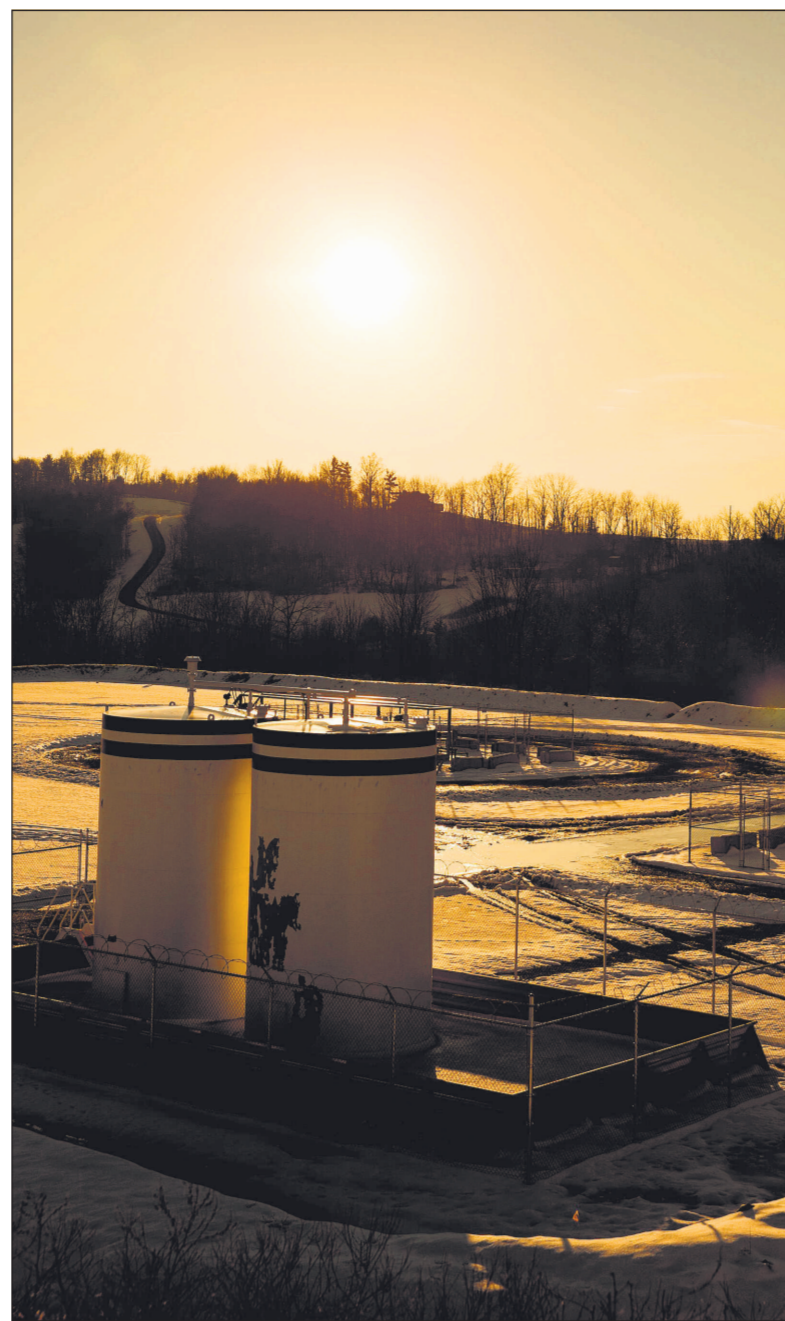
The new conventional wisdom is that EU leaders saved the euro. But this is a period of calm before another storm. Only the ECB's massive injection of liquidity into European banks, and its open-ended guarantee to buy distressed sovereign debt, saved the euro, and keeps it afloat.

There are three reasons to doubt the euro's survivability. First, ECB firepower, in addition to bailout funds in the European Stability Mechanism, may not be enough, given governments' and banks' addiction to cheap money.

Second, common fiscal rules will never be automatic. Inevitably, they will be bargained over and watered down to a low common denominator, and broken by countries unwilling or unable to stick to the rules.

Third, fiscal union and other centralised policies may prove to be disastrous political hubris. This latest march of top-down integration could spark populist backlashes.

The EU either faces perpetual firefighting to save a dysfunctional currency for many years



A natural gas well pad in Pennsylvania. The US economy is seeing an energy revolution based on shale oil and gas, one of three structural transformations that are testament to the underlying dynamism of US society. PHOTO: REUTERS

ahead, or the euro breaks up sooner or later. Scant progress has been made on structural reforms, and Europe remains saddled with unsustainable debt, taxation and welfare-state entitlements.

Like the EU, China has mounting structural economic problems that, if not addressed, presage a major growth slowdown, possibly a crash. China's promotion of state-owned enterprises (SOEs) has trumped market reforms. To combat the global financial crisis, there was a supercharged fiscal and monetary stimulus directed mainly at SOEs via state-owned banks.

These measures have reinforced the public sector, which guzzles capital and energy but employs only 13 per cent of the workforce, at the expense of the much more productive, labour-intensive domestic private sector and multinational enterprises. China's "demographic dividend" is also coming to an end, as the percentage of the workforce in the total population declines.

China's economy needs to "rebalance". Savings and investment need to decrease as a proportion of GDP, and the efficiency of investment needs to increase, as does private consumption. This demands supply-side reforms, mainly in "factor" markets for capital, labour, land and natural resources.

But these reforms are elusive, much more difficult than previous product-market reforms - they strike at vested interests at the heart of China's party-state, particularly the nexus between SOEs, state-owned banks, and government and party officials.

Substantial market reforms to rebalance growth and make it more sustainable are unlikely to materialise soon. China will like-

ly face a major growth slowdown, perhaps down to 5 per cent to 6 per cent per annum, along with increasing conflict between a restless, marketised society and authoritarian politics.

That leaves the US. The conventional view is that it has escalating public debt and a gridlocked political system. There is a giant question mark hanging over public debt. Nevertheless, the US has "deleveraged" more than Europe since the global financial crisis: Households and banks have sharply reduced their debt burdens.

Also, the economy is undergoing three structural transformations: an energy revolution based on shale oil and gas; a manufacturing revolution based on advanced-materials technology; and a services revolution, which will allow US multinationals to serve the burgeoning middle class in Asia.

These revolutions are not happening elsewhere. They are testament to the underlying dynamism of American society, based as it is on secure private property rights, free enterprise and the free circulation of ideas.

In Thomas Mann's *The Magic Mountain*, main character Hans Castorp intends to stay at the sanatorium in Davos for three weeks - but ends up staying seven years. Much of the European economy will stay in the sanatorium for seven years or longer. The US has a good chance of checking out before that. China is not in the sanatorium, but it might end up there if it does not change bad habits.

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Dreams of reform remain just that in China



By CHING CHEONG
SENIOR WRITER

CHINA'S new leader Xi Jinping has dashed the hopes of those Chinese who long for political reform in his recent warning against a Soviet-style collapse in his country and stressing of the need for the Chinese Communist Party's (CCP) grip on the military to avert such a danger.

The CCP chief made this tough remark in one of his internal speeches to party cadres during his southern tour to Shenzhen and Guangzhou last December. The content of this speech was disseminated to county-level officials.

Extracts of the speech were posted on the website of Beijing Spring, a New York-based Chinese-language magazine.

The crucial part in Mr Xi's speech was his analysis of the collapse of the Soviet Union and proposal of measures the CCP should adopt to avoid the same fate. This is how he read the Soviet story.

"Why did the Soviet Union disintegrate and the Soviet Communist Party collapse? An important reason was their losing the communist beliefs and ideals," he said.

"The total negation of the history of the Soviet Union and the Soviet Communist Party, as well as Lenin and Stalin, was an engagement in historic nihilism. It confused the people's thoughts and rendered useless the party organisation at all levels," he said.

"We learn from the Soviet experience that we have to strengthen the grip of the party on the military. The Soviet army de-politicised itself, dissociated itself from the party, and changed its nature (from a party army) to a national army. This means stripping the party of the ability to defend itself," he said.

"Although initially there were a few who tried to save the Soviet Union... the tool of dictatorship was not in their hands. The army was indifferent and tried to maintain its so-called political neutrality," he said.

"In this way, a great party collapsed overnight. Proportionally, the Soviet Communist Party had more members than we do, yet no one was man enough to step forward and resist," he lamented.

Since Mr Xi attributed the Soviet collapse to the loss of communist beliefs and ideals, it follows that to avoid the same fate, the CCP should strengthen them.

His solution lies in educating party cadres, to inculcate in them these ideals and beliefs.

"The communist ideal is the spirit of every CCP member... The communist ideal is the calcium of every CCP member. If CCP members lack this spiritual calcium, they would suffer from rickets and waver," he said.

He placed the communist dream above the Chinese dream.

"The Chinese dream is our ideal. Of course, we communists should have a higher ideal, which is the realisation of communism," he said.

"Some think that communism is too far away... and therefore lose their belief... These people fail to see how we come to be what we are today."

The term "realisation of communism" has not been used since China's reform and opening up started in 1978. But it is enshrined in the CCP Constitution, which says: "The realisation of communism is the highest ideal and ultimate goal of the party."

Addressing the calls by liberal party elders for political reform, Mr Xi argued: "Our reform has direction, stand and principle. Some people define our reform in terms of the West's universal values and political system. This is a tampering of concepts and misinterprets the meaning of our reform."

He added: "Of course we will uphold the banner of reform, but it is reform that moves us forward on the path of socialism with Chinese characteristics; we will not walk the closed and ossified old path or the evil path of changing our banner."

Responding to criticism that China's reform is lopsided and that political reform lags behind other reforms, Mr Xi retorted: "I don't agree with those who say that our reform is falling behind in some areas... There are things that we will never change and ought not to change, no matter how much time passes."

He urged every CCP member to be confident of their way, theory and system.

To dissident writer Gao Yu, "this means that Mr Xi will defend one-party rule."

She told the *Apple Daily* newspaper of Hong Kong: "His reform merely aims at strengthening the CCP's authority and legitimacy, not a change in the system. Xi doesn't want the communist regime to perish under his watch. The problem is, without political reform, there is no way to wipe out corruption."

Dissident scholar Chen Ziming, branded by the CCP as the "black hand" behind the 1989 Tiananmen pro-democracy demonstrations, said Mr Xi's speech deviated too far from the expectations of the Chinese intelligentsia.

"Before the 18th party congress, it was said that Mr Xi was reform-minded. Yet, in this speech, not even once was political reform mentioned. In fact, since the 18th party congress, Mr Xi has not made any reference to political reform in any public speeches," he said in an interview with New York-based *New Tang Dynasty* TV.

In a separate interview with *Apple Daily*, Mr Chen noted that Mr Xi spoke repeatedly about the Chinese dream of national revival. Now, the CCP chief has added the dream of realising communism.

"These two dreams are vastly different... Leninist-Stalinist style dictatorship is certainly not the Chinese dream," he said.

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Less emotional trauma with newer breast cancer treatment



By ANDY HO
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KNOWING can be vexing.

If a woman is tested and found to have a harmful mutation in either the BRCA1 or BRCA2 gene, she would have an 85 per cent lifetime risk of developing breast cancer, even before menopause. One option for her is to have both healthy breasts removed.

Or, a woman with cancer in one breast may elect to have her healthy breast removed, especially if she also has mutations in BRCA1 or BRCA2.

Increasing numbers of younger women in the West are resorting to this preventive mastectomy. That's because, once tested positive for these genes or once can-

cer has appeared in one breast, the vexatious knowledge of heightened breast cancer risk becomes a remorseless burden on the mind.

A recent University of Minnesota study that tracked women with breast cancer from 1998 to 2006 found the rate at which they were having the healthy breast removed more than doubled in the period. And it was mostly younger women who were doing so.

In most studies, most such women do stay breast cancer free after preventive mastectomy. But many of them weren't high-risk candidates for developing cancer in the other breast anyway.

That is, many of them either did not have BRCA1 or BRCA2 gene mutations or, alternatively, at least two close female relatives who have had breast or ovarian cancer, especially if they were diagnosed before the age of 50. (These relatives would be mother, sister and/or daughter.)

The procedure in no way guarantees that the woman will not have breast cancer in the future. For every 100 moderate- and

high-risk women who have had both breasts removed, 10 will still develop breast cancer afterwards.

This is because cancer develops in breast glandular tissue, not all of which can be removed surgically since it is found widely on the chest wall, even just under the skin and as far as the lower rib margin and also in the armpit and just above the collarbone.

The surgeon tries to remove that breast tissue from just under the skin down to the chest wall and around the chest borders. But cancer can still develop in any breast tissue that remains, even if the likelihood is small. For this reason, some experts argue against removing healthy breasts even for women at high risk.

However, women with breast cancer or those at high risk of it don't decide based solely on medical parameters: female breasts are not merely anatomical structures but are instead erogenous zones that represent femininity and sexuality. Accordingly, breast cancer implicates a woman's sense of her sexual self while breast cancer sur-

gery points to horrendous physical disfigurement that plays havoc with her femininity.

Yet some women are opting for preventive mastectomy, even when their surgeons don't recommend it. They do so to "put it behind" them: battling the disease takes such a toll physically and emotionally the woman can't bear to think of going through it one more time.

Cancer patients in general prefer action to inaction, tending to choose surgery even if its complications may kill them earlier than their cancer. A 2005 study published in *Medical Decision Making* found that patients considered "this early mortality preferable to a slower death from cancer".

Thus, while 22 states in America have laws requiring doctors to tell women that removing an early breast cancer lump alone (lumpectomy) is sufficient, many women still opted for mastectomies after the laws were passed in the 1980s.

(The laws were passed because, up till then, doctors still advocated total mastectomies for early

breast cancers, often without telling women that the slightly scarring but non-disfiguring lumpectomy gave virtually the same survival rates as grievously disfiguring mastectomies.)

But things have now come full circle and women are choosing to have bilateral mastectomies anyway even in early breast cancer or even when there is no cancer at all if they are at high risk.

Traditionally, with a mastectomy, the whole breast was removed along with the breast skin, leaving a large horizontal scar on the chest the width of the breast. But now a woman's decision to have the healthy breast(s) removed may have been made somewhat easier with a new technique called skin-sparing mastectomy that leaves virtually no visible scar.

In this newer approach, the skin over the breast is preserved: an incision is made around the areola, the darker skin around the nipple. Through this "invisible" incision, breast tissue is removed and the vacant space created filled up

with a silicone implant. With larger breasts, however, the incision around the areola may have to be extended feetwards to outline a lollipop, say, so there will be a scar, albeit much smaller than with the traditional operation.

If there is no cancer in the nipple or areola, the nipple is preserved. With as little breast skin removed as possible and the nipple preserved, and silicone giving volume and symmetry, the cosmetic results can be very good.

So while there is still a 10 per cent chance of developing breast cancer afterwards, the procedure improves the woman's emotional and sexual well-being greatly. It (mostly) nixes the vexatious knowledge that if there is lots of breast tissue lurking around, that may turn cancerous some day.

Of course, she must henceforth cut back on alcohol, eat healthy, exercise and see her surgeon regularly. But she will probably have peace of mind, always a good thing and perhaps the main thing.

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