

INSIGHT

The big challenge

Julian Hunt and Yuguo Li look at how governments are preparing for the growing risks posed by mega-cities, which are increasingly vulnerable to food, water and health hazards, as well as climate change

Growing populations are creating massive challenges, especially in the Asia-Pacific region. And they are also driving another mega trend – urbanisation through migration. In 1800, less than 3 per cent of the world's population lived in cities, yet, by the end of 2008, this had risen to more than 50 per cent, and there were 26 mega-cities (with 10 million or more inhabitants) including Tokyo, Seoul, Guangzhou, Shanghai, Delhi, Manila, Jakarta, and Beijing.

Despite the economic success of mega-cities, governments at every level are preparing for the growing risks that these massive urban centres pose. For instance, will it be possible to continually meet the everyday needs of food, water and health, and also deal with the growing vulnerability of mega-cities to environmental stresses resulting from climate change?

There is already cause for some alarm. For instance, the tsunami in Japan this year forced Tokyo to reconsider its approach to nuclear power and to protecting its cities. Meanwhile, the 2003 heat wave in Paris was so devastating because the public and authorities were unprepared for dealing with such extreme weather conditions, which were made worse by building practices, especially the lack of air conditioning. During the 21st century, mega-cities across the world will continue to grow, as will other large urban conglomerations. Energy demands will increase; supplies of food, water and resources for industries and infrastructure also require energy for transport.

The associated increased carbon emissions are contributing to global warming and pose their own climate risks. In China, where people are being subsidised to move from the countryside, cities have grown by a factor of two in only five years. The local urban "heat island" effect means temperatures are increasing about three times faster than the rate of temperature rise over global and national land areas.

The main risk for riverine mega-cities on coastal plains is their increasing vulnerability to rising sea levels and river flooding, such as those devastating Bangkok right now. There will be further episodes such as the one in New Orleans six years ago when it was hit by Hurricane Katrina and did not have adequate protection and flood warning systems. In at-risk countries, such as the Netherlands, researchers are preparing for these types of problems. For instance, Delft University's hydraulic engineering department has been developing a state-of-the-art early warning and monitoring system to protect coastal communities.

The larger the urban area, the greater the damage that natural hazards can inflict; and increasingly it may be impossible to protect life and property even if there is a perfect warning system. As a recent hurricane in Houston showed, despite the known dangers from

combined hazards such as winds and floods, there is now insufficient time to evacuate some cities safely, even highly developed ones. So there is a pressing need for cities to develop emergency refuge areas. In some cases, these may already exist. In most cases, however, refuges will need to be built from scratch. Thus, engineers and planners are considering how to identify and design such emergency centres, whether outside or within buildings, and how these should be connected to the wider urban system, including transport.

Training populations to use the centres effectively is also essential. Refuges have successfully withstood cyclones and floods in Bangladesh and, unlike those in some other developing countries, have been used by vulnerable communities who have also been able



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to evacuate their vital farm animals, without which they are destitute.

Emergency energy supplies for communities, which are essential for medical services, should improve in future. There are very promising developments in advanced solar power that is effective even in cloudy conditions.

Because of the failures to deal with some of the recent hazards affecting mega-cities, governments at every level are planning for multiple hazards and are developing strategies to manage the range of environmental factors that could emerge. Meanwhile, other research teams are collaborating in the construction of "system dynamics", models for the operation of infrastructure, environment and socio-economic aspects of mega-cities. These models resemble well-known computer programs for global climate change and its interconnections to economic developments. These will help cities to predict which hazards they face and decide how to prepare.

The London mayor's office is taking a particular interest in which policy options emerge as the city continues to expand. Meanwhile, many other cities are experimenting with air quality hazard indicators based on complex system models to inform citizens about how the envi-

ronment in their cities varies hourly and over the longer term.

What these models need is better availability of the relevant environmental and socio-economic data. Here, international agencies such as the World Health Organisation and the World Meteorological Organisation, as well as national governments, need to collaborate with a wider range of organisations, and make maximum use of new media. This will help to show how people experience rapidly occurring hazards such as tornadoes and slower, but still deadly phenomenon, such as loss of crops from rising sea levels and salt penetration.

Fortunately, mega-cities have a global organisation for information exchange and collaboration called C40 Cities. The future agenda includes improved inter-city co-operation on policies for dealing with hazards, and putting more pressure on national governments to assist, especially with finance and data, and strategic priorities.

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A dark hand

Albert Cheng bemoans the fact that Hong Kong's policy direction is still ultimately decided by bureaucrats behind closed doors



The two front runners to be the next chief executive have geared up their campaigns by doing the rounds with organisations that are members of the Election Committee. Former chief secretary Henry Tang Ying-yan and former Executive Council convenor Leung Chun-ying made a number of pledges while trying to garner support from the Heung Yee Kuk, the Hong Kong Chinese Civil Servants' Association, the Hong Kong Council of Social Service and various community organisations. Leung has been more progressive in this regard; his pledges go against the policy direction of the current administration.

Yet, most Hongkongers wouldn't pin much hope on campaign pledges no matter how convincing they sound. After all, all proposed policies have to be screened by administrative officers; they are the real power-holders in government. As long as the bureaucracy continues to reign supreme, we will see no breakthrough in governance, no matter who is at the top. I have personal experience to back that claim.

I am a member of the Independent Police Complaints Council (IPCC), an autonomous body set up in 2009 to provide a fair, effective and transparent system for the public. Complaints have been rising steadily in recent years as people become more aware of their rights. A total of 4,368 reportable complaint cases were endorsed, out of 7,953 allegations last year. Those figures represent increases of 44 per cent and 57 per cent respectively from the previous year.

The IPCC is seriously understaffed and urgently needs a manpower boost. One of its main duties is also to raise awareness of police work and human rights issues, to minimise misunderstanding and conflicts. It recently applied for an additional annual budget of HK\$7 million – HK\$4 million of which would be for publicity and education purposes and the remainder for hiring more staff and expanding its office. But the request was rejected.

As chair of its publicity and survey committee, I know how important it is to process complaints efficiently. We filed an appeal with the "star chamber" which comprises the chief secretary and financial secretary in a bid to overturn the budget decision. On the day of the appeal, I was barred from attending the hearing because I was not a controlling officer of the issue in dispute. The secretary general of the IPCC ended up being the sole representative at the hearing and our application was unreasonably rejected.

This is the dark hand of bureaucracy inherited from the colonial era, which emphasises internal supervision with regard to financial matters.

Such a strict budget management style is outdated and dictatorial. We must move with the times and respond to rapidly changing public needs. The controlling power with regards to the allocation of resources should not rest with administrative officers.

In his policy address, Chief Executive Donald Tsang Yam-kuen said that to ensure our administrative system is compatible with future democratic development, we must review the allocation of financial, manpower and land resources within the government, and the relevant procedures. These are core issues, but they cannot be resolved if we refuse to move with the times.

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World will continue to make do with the messy legacy of Bretton Woods

Andrew Sheng says we cannot expect miracles from an imperfect international monetary system

Most people think of the international monetary system as an architecturally designed system made in Bretton Woods at the end of the second world war. This may be true for the international financial institutions like the IMF or World Bank, but the existing system is a messy legacy of rules, regulations and foreign exchange systems, and institutions that facilitate trade and payments between countries.

Unlike a national monetary system, where there is one currency issued by the national central bank and national agencies responsible for financial stability, there is currently no global central bank, no global financial regulator and no global ministry of finance. In short, we have global financial markets, but no global mechanism to deal with periodic crises, except through the (sporadic) consensus views of national policymakers.

This was not a problem when the US was the dominant power in the 1950s and 1960s. But this changed when the US dropped the link to gold in 1971. From then on, the international monetary system was largely driven by decisions between the US and Europe, which together owned most of the voting power in the International Monetary Fund. Emerging markets had little say, since they were the major beneficiaries of aid and funding from the IMF and World Bank.

In 1975, the Group of Six came into being, comprising the US, Britain, France, Germany, Japan

and Italy. When Canada was added a year later, the G7 accounted for roughly half of world gross domestic product, but in effect ran the global financial system. By 1999, the enlarged G20 accounted for 80 per cent of world GDP.

The international monetary system is not functioning smoothly because decision-making is in the hands of sovereign nations, not global institutions. A unipolar system works as long as the dominant power is stable. This is not necessarily true in a multipolar system, as consensus isn't possible even for obvious decisions because of different national interests.

If we keep thinking about reforming the international monetary system in national terms, can we find a more effective system in promoting global trade and payments and maintaining global financial stability?

For example, the debate over the role of the US dollar and the emergence of the renminbi is seen as a threat to the status quo. This is understandable, but money and finance are not ends in themselves, but the means to an end, which is global prosperity and stability.

The real question is: what is the global financial system supposed to do, and how can that be achieved?

In the immediate post-war period, there was a shortage of US dollars. Hence, the IMF was created to provide liquidity and foreign exchange reserves for post-war reconstruction. The US ran current account surpluses, held most of the world's gold reserves and everyone

wanted dollars. Today, because of the Triffin dilemma (that, when a national currency is also an international reserve currency, conflicts of interest may occur), the continuous US current account deficits gave rise to a global imbalance, thought to be the cause of the current crisis.

One theory says that in the East Asian crisis in the 1990s, the region built up large foreign exchange reserves and current account surpluses, and these surplus savings reduced global interest rates and caused advanced markets to lose monetary control. However, that is not the complete story. There is increasing awareness that the global shadow banking credit was pumping out leveraged liquidity that may have caused national monetary policies to lose effectiveness.

In other words, instead of a shortage of global liquidity, there is too much liquidity in financial markets, so much so that most central banks are debating how to prevent creating asset bubbles, banking crises or overappreciation of the exchange rate that haunted Japan and East Asia. You either deal with this by building up large exchange reserves, or allow the IMF to become the provider of liquidity when you need it. Most countries do not like the IMF's stiff conditions and found out quickly that it has no teeth when you are not a borrower.

This is the real dilemma of the international monetary system. Do we really want a global institution to rebalance the global economy using

carrots and sticks? If so, each nation would have to give up its sovereign power to the IMF. But currently, the IMF cannot fulfil a disciplinary role against the large shareholders nor can it create credit sufficiently to help resolve the growing financial crises. The IMF's resources of roughly US\$400 billion would have to be increased by a factor of five to be able to deal with the European debt crisis. No single country or group of countries could deal with such exponential growth of the global financial system.

Structural issues must be resolved before considering the technical question of whether surplus country currencies like the renminbi should be included in the Special Drawing Rights basket of currencies as the global reserve currency.

The reality is that no country will forever be in surplus and, sooner or later, deficit countries will have to borrow from the international pool of savings. Without a coherent global consensus on what to do, muddling through from crisis to crisis seems to be the way forward. Don't expect the dollar-dominated system to change much unless there is another systems crash.

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Will Beijing pay the price for standing by dictators?

Stephen Vines wonders what might happen should it lose its economic clout

It is rare to find a dictator that Beijing does not like. The list of its best friends is impressive, stretching from North Korea to Zimbabwe and winding its way back through Muammar Gaddafi's Libya to the days when the murderous Khmer Rouge's closest overseas ally was in Beijing. With the downfall of three dictators in the Middle East, foreign ministry officials are scrambling to find a way of reconciling with the new regimes.

As matters stand, it is no easy task. In Libya, for example, many people know that small arms aimed at the population came from China, big infrastructure projects were not only financed but staffed by Chinese and even in the dying days of the Gaddafi regime, Beijing refused to recognise that the tyrant was history.

China's defence of its position is something like that of the burglar who has been caught red-handed in front of a blown-open safe and declares that, as everyone is blowing up safes these days, it's unfair for him to be singled out. Chinese officials point out that many Western governments were also friends of fallen dictators so it's unfair to criticise Beijing alone.

Moreover, and repeated incessantly, when Beijing uses its vote at the United Nations to block criticism of brutal leaders, is the excuse that China does not interfere in the sovereign affairs of other nations. Yet, the reality is that Beijing will arm, finance and trade with regimes who can find few other friends and in so doing keep

them in business. This is hardly non-interference.

This level of support has yet to match the activities of the CIA, which has helped place some very bad people in power and worked with them to thwart internal opposition. But the worst excesses of the agency's behaviour seem to be a thing of the past while China is stepping up to the plate as the new best friend to dictators everywhere.

It is, however, quite true that China, unlike the US, is quick to abandon its former allies once they are relieved of power. Cynics will argue that Chinese foreign policy is essentially based on the famous maxim of the 19th-century British statesman Lord Palmerston who insisted that "nations have no permanent friends or allies, they only have permanent interests".

These words were uttered more than a century ago, but continue to guide much foreign policymaking around the world.

China's problem is that it seems to have special difficulties making friends with new democracies and, today, is arguably uniquely friendly to the most infamous dictators. What does this mean for China's future relations with nations busy throwing off the yoke of dictatorship? People interviewed in Libya have insisted they never want to see a Chinese company return, and the regime in Burma [Myanmar] has even been forced to abandon a controversial Chinese dam project as anti-Chinese sentiment spreads.

Yet, memories are short. In

many countries where burning the stars and stripes was something of a national pastime, America is back and in good odour. Much of this has to do with changed US policy but, in equal part, it reflects the reality that in Latin America, for example, there are few realistic alternatives.

The Chinese government might take comfort from this and conclude that it is only a matter of time before people forget and warmly embrace co-operation with Beijing because, as a rising economic power, it can buy friends even if it does not win their hearts and minds. This cynical expectation might prove to be right.

Moreover, Beijing can always argue that it is uniquely placed to serve as a bridge to pariah regimes, a role it sort of plays in North Korea.

However, precisely because China is itself a dictatorship, there are always reminders of why it's hard to warm to a nation that oppresses its own people. And, as the universal trend is for people to throw off the yoke of dictatorship, the nations that cling to this form of rule will be increasingly isolated.

Right now, China is hardly isolated because it has the kind of economic clout that keeps allies on its side. But what will happen if that clout fades? Not everyone has short memories and when liberated people are given a choice of allies, they might well choose not to be friendly with a nation that supported their oppressors.

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