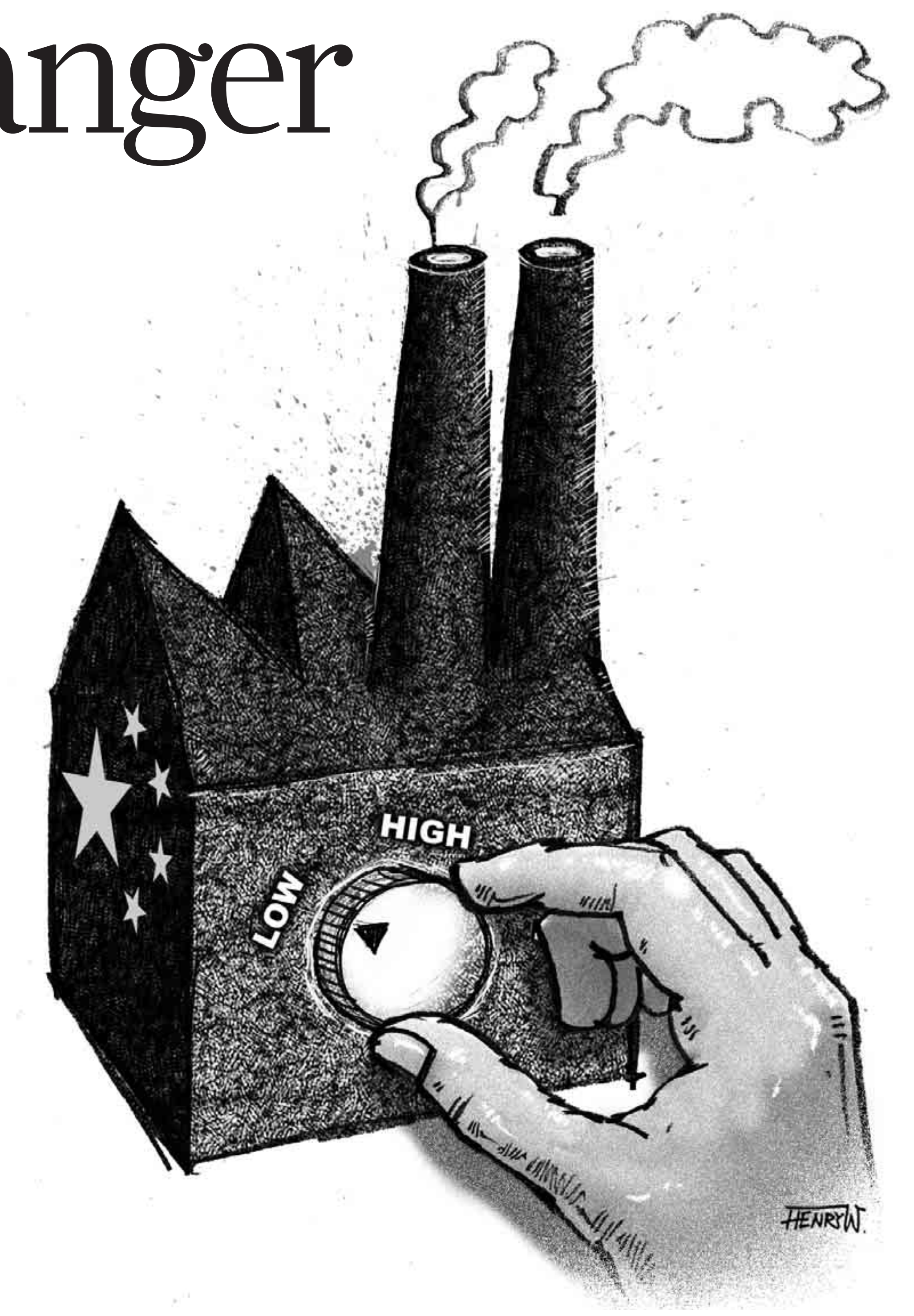
China can lead the world in tackling global warming by making the transition to a low-carbon economy, writes **Nicholas Stern**

Climate changer



As the design of China's 12th five-year plan nears completion, we must hope that, in the interests of China and the world, it has at its heart policies to promote the transition to a low-carbon economy. Not only would this demonstrate leadership in helping the world avoid the potentially devastating consequences of climate change, but it would also ensure that China is at the forefront of a new industrial revolution that can drive sustainable growth over the next few decades.

The basic arithmetic of global greenhouse-gas emissions shows the importance of China in tackling climate change. To have a reasonable chance of avoiding a rise in temperature of more than 2 degrees Celsius compared with pre-industrial levels – the goal set in the Copenhagen Accord earlier this year – global annual emissions must fall from 47 billion tonnes this year to much less than 35 billion tonnes in 2030, and well below 20 billion tonnes in 2050.

China's emissions this year are likely to be between 8 and 9 billion tonnes. We all

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hope China, as a poor country, will continue to grow steadily. If its economy grows at about 7 per cent per year on average, doubling in size each 10 years for the next two decades, its total annual emissions will reach between 30 and 35 billion tonnes by 2030, if emissions per unit of output do not change. In short, China would use almost all of the world's entire "budget" for emissions in 2030.

China has clear plans to reduce emissions per unit of output, but will they be strong enough to be consistent with the global arithmetic required by the goal of 2 degrees?

To reduce global emissions to less than 35 billion tonnes, average per capita emissions for the world's population would need to be about four tonnes in 2030. If China, with a projected population that will be about 18 per cent of the world total in 2030, has per capita emissions of much greater than four tonnes in two decades' time, the global emissions target would be close to impossible to achieve. Four tonnes per capita implies that China's total annual emissions in 2030 would be about the same as today's.

If China's gross domestic product doubles every 10 years, emissions per unit of economic output will need to halve each decade; or if we think of the next 20 years, emissions per unit output should decrease by, on average, 29 per cent during each five-year plan.

These calculations are based simply on arithmetic, and take no account of differences in relative income or wealth, of the global challenge of reducing poverty, of historical emissions, or of questions about whether responsibility for future emissions should lie with the producer or consumer. All of these are important ethical and political issues, and there is a deep injustice because the rich countries have become wealthy through high-carbon growth, but the poorest countries will be hit earliest and hardest by the impacts of climate change. However, China's size and its growth make it inescapably central to international efforts to manage effectively the risks of climate change.

The sharp cuts in greenhouse gas emissions that are required should not be seen narrowly as a burden; the transition to low-carbon growth presents immense economic opportunity. This is a new industrial revolution, and history shows that the first few decades embody great innovation and creativity, with investment flowing to the pioneers.

China has already embarked on a new era of clean, sustainable growth through its package of green measures to stimulate the economy after the global slowdown, along with its large investments in rail transport, its increased regulation of vehicle emissions, its rapid development and production of renewable energy sources, its strategy for reforestation, and its targets for reducing emissions per unit of economic output. This important commitment has not been adequately appreciated by other countries.

China has begun to address the fundamental market failure that arises when the price of emitting greenhouse gases does not match the cost of damage they cause through climate change. Introducing a price on emissions is fundamental to correcting this failure and getting markets to work as they should. A price could be promoted in the 12th five-year plan through higher taxes on resources such as coal, oil and gas. A tax on coal of 50 per cent, equivalent to a price on carbon dioxide of about US$20 per tonne, could raise about 1.2 trillion yuan (HK$1.39 trillion) per year to fund the transition to low-carbon growth, promoting China's competitiveness in the great growth opportunities of the future while further demonstrating leadership on climate change.

Its development as the world's fastest-growing economy presents a tremendous opportunity for China to lead the transition to a low-carbon world that will also be safer, quieter, cleaner and more energy-secure. It has a great deal to gain by being at the forefront of a new kind of sustainable economic growth, based on the creation of global markets for low-carbon technologies.

Other countries have also recognised the prize that is on offer: South Korea, for instance, aims to increase its share of global clean technology exports from 2 to 8 per cent by 2012.

Growth simply by accumulation with fixed or standard technology, and ignoring the environment, is the model of the past century. Its time has gone. The global growth story for this century is based on new ideas, technical progress, new inputs, investments in people and protection of the environment. China can lead the way by putting low-carbon policies at the core of its 12th and 13th five-year plans.

Professor Lord Nicholas Stern is chair of the Grantham Research Institute on Climate Change and the Environment at London School of Economics and Political Science. He will be keynote speaker at the Urban Innovation and Sustainable Development Forum at the Shanghai Expo tomorrow

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Developing farce

The proposed compulsory sale of a half-century-old noodle factory in Sham Shui Po has turned out to be a huge misunderstanding. Officials are now saying that the owners do not need to surrender their property because the building is only 36 years old; the law only covers buildings that are 50 years old, or older.

The biggest joke is that everyone involved in the case – senior government officials, lawmakers, politicians, the media, the developer and the property owner – seems to have misinterpreted the law. Secretary for Development Carrie Lam Cheng Yuet-ngor is primarily responsible for this blunder, while those who have failed to monitor the administration – such as lawmakers, the media and pressure groups – should also shoulder a portion of the blame.

The new amendments to the Land (Compulsory Sale for Redevelopment) Ordinance, passed in April, allow developers to force the sale of remaining units in a building once they have acquired 80 per cent ownership of it. The previous threshold was 90 per cent.

Before getting the full picture of how the new rules would apply, many critics accused the government of colluding with developers. Legislator Regina Ip Lau Suk-yee even ran a full-page newspaper advertisement to denounce the new law. Her pro-people approach has made her the city's most popular lawmaker.

The new legislative amendments state that a developer can seek the forced sale of the remaining units in a building if it has acquired 80 per cent of the building's ownership. But it only applies to three types of buildings: any buildings older than 50 years, industrial blocks outside industrial zones that are older than 30 years, and those in which each unit represents at least 10 per cent of the building's ownership.

As it turns out, the building in question is not old enough, and each individual upstairs unit represents less than 10 per cent ownership of the building.

It's obvious that the compulsory sale law has not weakened property rights or deprived owners of their interests. The principle of the legislative amendments was to remove obstacles to urban renewal and so benefit the community at large. Those who have wrongly accused the government and misled the public now look ridiculous in this uproarious political farce. Legislators, whose main task is to monitor the administration, have neglected their duty by accepting Lam's explanation on the amended law without question or further investigation. No wonder most Hongkongers have so little confidence in the Legislative Council.

> Had the developer gone ahead with the demolition, the consequences would be unimaginable

It's disappointing that some members of the Fourth Estate – the media – have been highly unprofessional as a government watchdog group. The media is vital to the checks and balances of a society and we certainly expect our media professionals to have journalistic independence, political neutrality, accountability and public responsibility. In this case, though, they merely recorded and printed what Lam said. What a let-down.

Other detractors, such as the Minority Owners' Alliance Against Compulsory Sales, also failed the public, and maybe it's time for it to disband. Instead of pointing an accusatory finger at the government, the alliance should salute it for giving affected property owners more bargaining power in the city's redevelopment programme.

Even the developer seems to have been taken for a ride, apparently believing it had the right to buy up the building for redevelopment. It does seem absurd for such a big company, undertaking a complex project that's worth billions of dollars, to have acted in such a fashion. Had it gone ahead with the demolition and redevelopment, the consequences would have been unimaginable.

But now developers that target old buildings for development to generate profits have lost a useful tool, and homeowners can rest assured they will not be misled into selling their flats any more, at least for now.

Albert Cheng King-hon is a political commentator

Voices: Islamic finance

The new challenge to Wall Street?

Andrew Sheng

Since Donald Tsang Yam-kuen announced Hong Kong's ambitions to be an Islamic finance centre, in 2007, there have been great advances in Islamic finance. I was in Kuala Lumpur this week attending the Global Islamic Finance Forum, which was attended by the whole glitterati of the Islamic world.

In the 1990s, Islamic finance was a fledgling, fringe industry. Today it has grown from roughly US$150 billion to about US$1 trillion. This is still small relative to some of the largest global fund managers and universal banks, who manage more than US$1 trillion each. But the double-digit growth and potential size of the market cannot be ignored. Some pundits think the market will reach US$2 trillion in the next five years.

There are roughly 1.3 billion Muslims in the world, with 138 million in India and roughly 30 million in mainland China (plus 200,000 in Hong Kong). These are growing markets in terms of income and wealth. Since the Muslim community wants to invest in interest-free banking, Islamic funds have been growing in leaps and bounds. There are roughly US$800 billion in Islamic banking funds, US$100 billion in the *sukuk* (or Islamic bond) market and another US$100 billion in the *takaful* (Islamic insurance) and fund management business. In 2008, Hong Kong sought to attract Muslim investors by introducing the Hang Seng Islamic China Index Fund, which complies with sharia law.

With oil prices remaining at high levels, Middle East producers continue to generate surpluses that must be parked somewhere. With Western markets and economies under pressure, some of that money has moved eastward.

Will Islamic finance be a serious challenge to traditional Wall Street finance? That question deserves a good answer.

First of all, thanks to the good work of Bank Negara Malaysia and the central banks of Persian Gulf nations, the infrastructure for Islamic finance has been laid. It includes the establishment of an accounting standards authority (the Accounting and Auditing Organisation for Islamic Financial Institutions); an international organisation to set regulatory standards (the Islamic Financial Services Board) and the Institute for Education in Islamic Finance.

The basic principle of Islamic banking is the sharing of profit and loss, and the prohibition of usury. Simply put, interest is prohibited, but profit sharing is not. The distinctive elements of Islamic finance are its ethical aspect (the prohibition of usury and exploitation of the borrower), the preference for trading in real assets (rather than synthetic products), partnership between the investor and investee, and its governance structure (requiring a sharia council).

The point to remember in Islamic finance is that there is no Islamic global reserve currency. Although Islamic banks are growing rapidly, there is no assurance that they will not be subject to the problems of non-performing loans and bank runs that are endemic in commercial banking.

This week saw the launch of the innovative International Islamic Liquidity Management Corporation (IILM). It aims to help institutions that offer Islamic financial services to manage liquidity more efficiently and effectively. It addresses a fundamental problem of Islamic financial institutions: providing adequate liquidity in times of stress. Once an international lender of last resort is in place (to supplement national facilities, not replace them), there will be better confidence in the liquidity of the Islamic financial services industry.

The IILM is expected to issue high-quality, sharia-compliant financial instruments at both the national and cross-border levels, to enhance the soundness and stability of Islamic financial markets.

The signatories to the IILM Articles of Agreement are the 11 central banks or monetary agencies of Indonesia, Iran, Luxembourg, Malaysia, Mauritius, Nigeria, Qatar, Saudi Arabia, Sudan, Turkey and the United Arab Emirates. Multilateral organisations participating in the initiative are the Islamic Development Bank and the Islamic Corporation for the Development of the Private Sector.

> Some pundits think the Islamic finance market will reach US$2 trillion in the next five years

Islamic finance has come a long way, but there is still a long way to go, since US$1 trillion is still small relative to US$232 trillion in conventional financial assets (excluding derivatives).

The real test for any challenger to Wall Street finance is whether Islamic finance will be the more efficient, more ethical and more stable of the two. Islamic finance fulfils the needs of the Islamic customer. Ethics aside, there are two crucial problems in finance – information asymmetry and the principal-agent relationship. Because markets are not completely transparent and information is unequal among participants, we tend to rely on trusted institutions such as banks (the agents), to act on our (the principals) behalf.

The recent Wall Street crisis demonstrated how complex financial engineering enables very smart bankers to make profits at the expense of the public purse. When they fail, the public bears the losses because they are too large and too powerful to fail. This is the "moral hazard" created in the absence of the level playing field that is a precondition of free markets.

The real question is, given our unequal access to information, how do the savers and borrowers know when the banks have shifted the risk back to them, because of moral hazard? Islamic finance faces exactly the same dilemma. If Islamic finance theoreticians can solve this problem, they would be doing a great service to the rest of the world. Then we would truly have an alternative to Wall Street.

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Voices: Hong Kong

Loud thunder, little rain

Michael Tien

If this year's policy address was the last quack of a lame duck, it was only half a quack. At first blush, this edition deserves to be rated the most comprehensive of Donald Tsang Yam-kuen's policy addresses. But, on closer scrutiny, it is really his most half-hearted. It provides only half measures, tickling our fancy but not tackling the real problems.

Take the case of the "rent-now-buy-later" housing scheme, otherwise known as the My Home Purchase Plan, an idea long favoured by the Liberal Party. I am glad the government has embraced it, but it has done so only half-heartedly. Without its critical component, the government's plan is but a castrated version.

What is missing is our idea that this scheme must be centred on a system of revolving tenancy – meaning that participants can remain in their flat for a maximum of only five years, at the end of which they will vacate it for a new tenant, in return for a lump-sum rental rebate equal to 60 per cent of past payments. This way, there will be a perpetual supply of flats – without which, the government will be faced with a chronic short supply of apartments to keep the plan running. In its present form, it is but an anaemic model of the Home Ownership Scheme.

On another front, in a move to curb the excesses of property developers guilty of shoving "inflated flats" on a protesting public, the government appears to act boldly, in another echo of a Liberal Party proposal. But, unfortunately, the government chooses to delay implementation by six months, giving developers more time to victimise buyers. In trying not to offend, it has failed to please.

Faced with an ageing population, what does the government do for the elderly? It again goes for another half measure, more exasperating than alleviating. The government will cut the minimum stay in Hong Kong from 90 to 60 days a year for recipients of the old age allowance, or "fruit money". This new policy defies common sense. What useful purpose is served by compelling the elderly to return to Hong Kong for 60 days a year? Where will they stay during these 60 days? With their relatives? Or in half-way houses or shelters for the homeless? So much for the intention behind fruit money – a gesture of respect for the older generation.

This is especially baffling as the residency requirement for the Comprehensive Social Service Assistance has been ruled unconstitutional by the High Court, and its application to the old age allowance is under judicial review. We favour an across-the-board waiver for both schemes – mulishly resisted by the government.

A Liberal Party poll shows the issue that resonates most with citizens – with a support rate of over 70 per cent – is that of giving extra support to the needy elderly, raising the monthly assistance to HK$1,500 from HK$1,000. Last year, the chief executive wanted to subject recipients to a means test for fruit money in exchange for its rise to HK$1,000. It was sheepishly withdrawn after howls of protest. Spooked by the public anger, Tsang chose to duck the issue of offering extra help to the needy. So much for concern about people's livelihood.

The one bright spot, which could have gained praise from the higher education sector, turned out to be a damp squib. For the first time in more than 20 years, the government finally offered to increase subsidised first-degree placements. But for the 2012-13 academic year, the increase was a mere 380 places. Compared to a shortfall of 6,000 students who have studied hard to qualify for university admission, this meagre offering is a massive insult.

Such official frugality is difficult to justify when we are flush with cash. At HK$200,000 per year apiece, 6,000 places would cost only an extra HK$1.2 billion – against a HK$45 billion surplus. Where is the strategic vision when Hong Kong needs to compete globally as a smart society?

With great fanfare, the government unveiled its so-called "six industries" plan last year. A year has gone by and little has been heard about it. Tsang devoted all of one small paragraph to it in a passing reference. There was no mention of any progress or of any jobs created.

The local Chinese media have a lovely phrase for it: "loud thunder, but little rain."

The government carries on its merry way, playing its "active non-intervention" game, with economic overdependence on finance and property and scant help to small and medium-sized businesses. How does the government propose to restructure the economy and bridge the wealth gap by sitting on its hands? This is hardly a blueprint for a harmonious society.

After all is said and done, the policy address was little more than a false dawn from a sunset government.

Michael Tien Puk-sun is a Hong Kong deputy to the National People's Congress and a member of the Executive Committee of the Liberal Party