
Growth, Development and Environmental Economics in Asia

Laurence Brahm

Author, *Fusion Economics How Pragmatism is Changing the World*

Chair: John Simpson

World Affairs Editor, BBC

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10 St James's Square, London SW1Y 4LE T +44 (0)20 7957 5700 F +44 (0)20 7957 5710
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John Simpson

My name is John Simpson. I work for the BBC and it's a huge pleasure and privilege to me to be able to introduce a friend, a contact, a tremendously useful source on the goings on in Beijing and the mood, music there and what's happening, Laurence Brahm. Laurence has a remarkably colourful past in, I think you went to China first in 1981?

Laurence Brahm

1981, that's right.

John Simpson

And has stayed there pretty much the whole time through all those quite extraordinary changes that we've all witnessed, well everybody of my age has witnessed, since the early 1980s and the changes which you know happened with Tiananmen Square and then the slow return to kind of international contact. And now, you know, part of a kind which, to be honest, in 1981 you couldn't have conceived of, I don't think. I mean people always used to talk about China as one of those future countries that was always going, at some stage, to be a great power, but somehow or another while the controls were on in full, it never managed to achieve that. Extraordinarily, but it was a symptom of the time, I think, Zhu Rongji when he was really one of the most active, if not the most active element in China's politics, appointed Laurence one of his advisers.

So there you had an American with still an American passport, I assume, advising the Chinese government on how to behave, what to do. Well, I mean Zhu Rongji has had his ups and downs in reputational terms as well as a little bit in political terms, since then, but he did then make a bit of a comeback didn't he? And now perhaps not quite -

Laurence Brahm

Now he's a bit quiet, quiet again.

John Simpson

Now he's a bit quiet, he is getting on, but Laurence has now widened out his interests quite remarkably. I should say that those interests include owning hotels in Tibet, a gorgeous one which I recommend thoroughly on the Great Wall, absolutely beautiful place and he runs an extraordinarily pleasant restaurant in one of the hutongs in the centre of Beijing which is where, first of all, I met you. I did an interview with him in 2011, the autumn of 2011 and then afterwards he said, 'Well, come around to my place and have dinner.' So with my producer Peter Lange we went around and had this absolutely stunning meal. I hope I've advertised your interests enough!

Alongside that he's now written this fascinating and lovely to read book called *Fusion Economics: How Pragmatism is Changing the World*, which is what we're really here to discuss. What I have to say to you before, I've only just remembered, would everybody just make sure that their phones are off. It's usually the person who says it whose phone goes off, I've now buried mine and detached its battery and thrown it away and so on, and

so that shan't be me. Also, the other thing, which actually probably Laurence needs to bear in mind very strongly as well as everybody else, that this is not according to Chatham House Rules. This is going to be recorded and the recording is going to be put out publicly and so people will hear what you as individuals and what Laurence as an individual is saying and it won't be just possible to say, you know, the usual sort of Chatham House thing. That's because, I'm glad to say, there are so many of you. If we were just sitting around in a small group, we would probably adhere to the rules much more than we have to now.

So, fusion, well I know now because I've read the book, but describe to us what fusion economics actually consists of?

Laurence Brahm

Well, it's taking this argument about capitalism and socialism, which has dominated our economic classical economical thought for so long and politics, and throwing it out. And saying, let's be pragmatic because the isms are something of the last century and China's economic model or China's approach, really... What we did in the 1990s was break from this cookie cutter model fits all, the shock therapy, the Washington Consensus that was applied in the Soviet Union, the post-Soviet states and later again during the Asian financial crisis and adapt a mixture of approaches, sometimes using planning, sometimes using market, using the planning tools to get to the market.

This was the China approach that was really developed by Zhu Rongji at that time and through this gradual transition, but fusion adds something more to it. Fusion actually looks at not just the top-down guidance, but the bottom-up and the plethora of responses, particularly after, what I call the 'post occupy world', post 2008, the occupy movement in 2011 were in the middle of the decade of global protest, but in the response to the inability of governments to address people's needs, people were addressing them themselves.

There are a lot of solutions to revitalizing communities, creating business, which are going off the grid in terms of energy, creating local finance, often cryptic currencies. All of these things are representing solutions and Fusion Economics is saying, take the economic theory, put it in the trashcan and let's start to look at real solutions and put the matrix together based on what works.

John Simpson

Based on what has worked, of course, partly at any rate, in China. So how much of the fusion derives from the Chinese experience?

Laurence Brahm

I think the notion of fusion is inspired by those years of transition because in addition to working with the Chinese government on financial reform and state owned enterprise reform, I was also working with Vietnam and Laos, all of which were socialist economies transitioning into the market and the traditional western or American approach was, shock it. This was the IMF, World Bank, everybody was trying to shock these economies and those economies that were shocked, fell apart. Those that transitioned gradually,

because there was so much that had to be built in terms of institutions that didn't exist to cope with the market, and the acceptance that from time to time the state should intervene, that as Deng Xiaoping said, markets need planning, planning needs markets and the debate.

So this aspect was influenced by China, but what wasn't influenced was the work that I began in 2000 and really, I began making films in 2002 in Tibet, but 2005 setting up the social enterprise Shambhala Serai and realizing that you can have a small business, it can be profitable and it can also have positive impact on the community and even get off the grid and be a renewable energy source to enterprise. Then I realized that I'm not the only one doing it, actually it's a movement that's happening everywhere, all across Asia, all across Africa. And having just arrived here from the United States, it's happening there also in response to the inability of top-down economics to be effective.

John Simpson

One of the things I really loved about *Fusion Economics* was where you talked about how the very idea of some kind of market economy grew from a very obscure part of China and very small number of people. I wonder if you could just talk about that.

Laurence Brahm

Sure, this is the small can become big. Around 1978/79, 18 families in Anhui Province decided to step away from the state policies of producing everything for the state and they signed a contract among themselves. That contract basically was, we will give the state what the quota is, but everything outside of the quota we'll sell it and we'll keep the profits for ourselves.

John Simpson

Was that illegal at the time or disapproved I'm sure?

Laurence Brahm

Certainly it was going against the trend but what happened was Wan Li was the party secretary of Anhui Province and Wan Li looked at the case and said, 'Let them do it, allow it to happen.' Well, this became the basis of what would be called the 'self responsibility system' which eventually became the whole foundation for the market economy. I was really lucky, I remember in 1992 and Wan Li was chairman of the National People's Congress, he received me at the Great Hall of the People and he was quite elderly then. He was number two next to Deng Xiaoping and in the meeting he had only one question. How do we turn our state owned enterprises into multinational corporations.

John Simpson

And Wan Li had owed his position to that decision back in 1978, 1979 to say, let these people try...

Laurence Brahm

Deng Xiaoping said that that solution has worked at the local level, let's expand the bandwidth step by step and then eventually make it a national policy and that is also part of what fusion economics is all about. What we're looking at around the world with my organization, Himalayan Consensus and its counterpart African, is the local solution that works. And trying to bring business and finance to the table and say, hey this is not, you know, environmentalists hugging trees. These are not activists trying to do something that's way out there. These are innovators, this is your R&D and how can we bring finance to the community and expand the solution whether it's renewable energy, efficient energy, water, micro-finance in its many different forms. We call it 'inclusive finance' which is far greater than micro-finance.

All of these local solutions are an opportunity for business and finance and to break this thinking that again, it's sort of the classical myopia that business and activists are working against each other, actually there can be enormous synergy and dynamism and that's where the fusion comes in. It's combustion.

John Simpson

What does the Chinese government think about it now? I mean you can see that there are elements there that might make them distinctly uncomfortable, I would have thought?

Laurence Brahm

I think that the Chinese government picks and chooses what it likes. So I can't say that everything that I've written about fusion economics they're going to embrace. On the other hand, there's an aspect of the fusion economics that has come from my work in China as adviser over the past two years and I've been advising the minister of environmental protection and it's really looking at what I call 'environmental economics'. How China has to shift away from fossil fuel, 70 per cent of its coal, moving to the renewable energy area and how given its existing model, which is fixed asset investment growth, to use that, not to do more of the same, polluting industry, cement and steel, but to move in the area of renewable efficient energy. And switch the grid and actually invest in that and then use fiscal and credit policy to drive businesses toward a more renewable solution, including water and trying to have conservation of water.

There are a couple of points which I think we've already had inception because when I work with the Chinese government or any government, I like to use the approach of what I call 'inception', like the movie, you know the movie Inception? There are a few guys who basically got a major business leader to make a decision thinking it was his own decision.

John Simpson

We do this a lot in the BBC, you know!

Laurence Brahm

So to get the Chinese government to say, 'Oh, this is my idea,' and we say, 'Yeah, that's a good idea.' The point here is that the growth, aspects of our recommendations that are beginning to sink in are on the growth issue. GDP has been the main reason for our raising of cadres; it's been the main reason for a lot of extensive polluting investments that have damaged China's river systems water, agricultural systems and mountains. So now we've been pushing GDP plus, plus, plus, plus environment, plus healthcare, plus social wellbeing and the first sign of this, again, it begins locally. It's just before the NPC this March. It was announced that Zhejiang Province will not raise cadres and officials on the basis of GDP, it will be on the basis of air quality and healthcare.

Then Li Ka-shing, he's been hit with the question from journalists, what about growth this year, it's not going to be eight per cent, it's going to be seven point five or seven. He's saying, well elasticity of growth and then Zhang Gaoli was talking about, at the UN last year, we've been recommending, I'm actually very much against the policy of urbanizing the countryside, but since they've chosen to do that, and basically turn all the villages into cities, we've said, if you're going to do it, the cities have to be smart, green and blue. Meaning smart, efficient transportation, green, renewable, blue, water conservancy and Zhang Gaoli at the UN used those words basically. He talked about a smart, green, low carbon city, was the term he used. So inception is happening and there are some things that they're taking on board.

John Simpson

And the government, I mean you know, a very wide term, but I suppose we're talking particularly about Xi Jinping himself, would not feel threatened by any of this? It's got elements, hasn't it that must make him wonder?

Laurence Brahm

Well, if it's talking about environment, Xi Jinping said ecological civilization, that was what he said is part of the China Dream and I'll tell you the truth. The first assignment I had when we were working with, inside the Ministry of Environmental Protection was, define ecological civilization, because they come up with broad terms, but then you have to flesh it out and in our sense, ecological civilization is changing the economics by changing the assumptions, as changing the values and creating values that instil the sustainability of agricultural, water, environmental conditions for future generations.

From this perspective I think that the Chinese leadership doesn't have a choice. When Hu Jintao came to power, according to official Chinese statistics, there were about 80,000 incidents, riots, protests a year, in China. When she came to power it was about 150,000, so it almost doubled and those are China's own statistics. Most of that is, you know the whole point of high growth, the whole assumption during the Hu Jintao years was high growth is going to prevent political instability because people want material things, but now we have had high growth, you know, human rights in China, everybody has a right to a Ferrari, you can't drive them because the traffic is so bad in Beijing. So it's basically Beijing traffic is an interactive parking lot of Ferraris and Lamborghinis and people are saying, 'Do I need this?'

The question is, actually, the instability is arising from environmental problems. People are caring about their kid's food, about water and all of this is connected to the environment. So when I say that the government, your high growth rates actually are not accounting for the cost of environmental damage, which ultimately you have to repair, which ultimately comes back to the state, which ultimately comes back to the taxpayer, to the business and there you go. That's going to actually deter growth. So you're not factoring the long-term costs of repairing the damage created by the growth and I think they understand that implicitly because that's a question of the party's survival. It's going to be not just about making people rich, as Deng Xiaoping said, but about having air that they can breathe, food that they can eat and water that they can drink.

John Simpson

I'm very reminded when I hear you talk about these things of the man I used to boast of being friendly with, now I keep rather quiet about it. Bo Xilai who is now of course serving a life sentence for various distasteful crimes, but he said to me once, wrote it actually, to me once, 'You cannot believe how insecure a government feels when it knows it hasn't been elected.' I mean he changed his tune, of course, but there is, you know, the notion that people can produce policy which really does underlie this, doesn't it? It's not really the Chinese model at all is it?

Laurence Brahm

Well, I think we look at China, when I'm in the States everybody asks, when is China going to become a democracy, this is the first thing on everybody's lips and my answer is, 'in my mind it's not relevant.' Why it's not relevant, because to a great extent the government functions, even the nature of the government, in a very traditional way. In a very Confucian way, to some extent there's not a lot of difference between the structure of a top committee around a central leader and then ministries and departments and internal ministries that you can't see and family relationships that control interests. Not much different than the Qing Dynasty, the Ming Dynasty, I mean it's basically a system which is continuing in different forms and evolving in different environments.

Really, there is a sense of a continuum in that system. So we look at what China is about, it's always this history of cycles. There's a peasant leader that comes to power, overthrowing a corrupt administration, he comes in and he reforms and creates the new administration which another generation or two later becomes corrupt and there's a reform and there's a rectification and eventually it goes until it, another peasant or rural leader leads an uprising. So in my mind it's not a question of when China will be a democracy. The three trillion US dollar question is, what stage of that cycle are we at right now.

John Simpson

Where do you think it is?

Laurence Brahm

I think it's at a crossroads. I think this is why you see this very strong, hard-handed anticorruption campaign going on because as one Chinese official said to me, you know, if you're going to attack corruption, then you're attacking the party, but if you don't attack corruption, you're going to kill a nation. So we have to do one or the other and I think what's happening now is it's at a crossroads.

There are three possibilities I could see on the horizon. One possibility is that she gets absolute control through this anticorruption campaign and then with his hand at the helm, in a way that Deng had, at one point in Deng's history, she can implement reforms and bring back the market economy and you know, bring back some of the Zhu Rongji policies that we're talking about. Certainly his financial team, his gurus in finance [indiscernible]. So we have that possibility.

There's another possibility that I think is now unlikely, though it was debated maybe a year ago, that he doesn't succeed in getting control of the whole thing and you have continued internal factional fighting which means, then a situation somewhat like what's happening in America without a clarification of direction. I think that's past and then the other situation is that you know, if he, I'll add two more scenarios. One scenario is he gets that control, but there is now in the wake of that, a lot of trepidation by Chinese entrepreneurs pulling their capital out, foreign investment pulling out, then China's in a bit of a conundrum. How do you then, once you have control, implement the reforms that are needed and keep the economy going?

The outcome that is a better scenario is where I see with China's outward investments, with China trying to construct a new financial architecture south-south, with Chinese investment heavily in central Asia, in Africa and in turn, China eventually issuing what I think will be the next reserve currency, either itself or through one of the new financial institutions that it's creating.

John Simpson

AIIB.

Laurence Brahm

The Asian Infrastructure Investment Bank. I mean again, who is behind that? It's Lou Jiwei the Finance Minister, Zhu Rongji's people and they see the importance of investing in the infrastructure of the underdeveloped world the way they built up their own infrastructure and in turn, China going outward to invest and China, not only to extract minerals, but investing in agriculture and manufacturing and becoming not the manufacturer of the world, but the in venture capital and central bank of the world. That is the direction they're going in.

So if they can then be able to issue their own reserve or second reserve currency through a south-south buy-in, which I think is what they're trying to build up, then I think Xi Jinping may be in for some pretty smooth sailing because China will be then able to

reboot itself as an economic power and put in as much money as it wants to, basically worry about its own internal debt.

John Simpson

We've got five more minutes before I'd like to turn this over to questions. Just tell me about Himalayan Consensus. What does the phrase mean, what are the implications?

Laurence Brahm

Okay, well, you talked about the hotels and we set up a social enterprise restoring heritage buildings that then employed only Tibetans, eventually gave equity to them...

John Simpson

This is in Tibet itself?

Laurence Brahm

In Tibet.

John Simpson

And in China?

Laurence Brahm

In Beijing we did it in the courtyards and we restored and preserved neighbourhoods and that was sort of the experiment that led to us being able to do it in Tibet. Then gaining off the grid solar power, it's a social enterprise, we've opened up school, medical clinics, okay. And then by 2007 decided, you know, if there's [indiscernible], if a tree falls in the forest and it doesn't make a sound, doesn't anybody hear it? So we went out to see, let's make a sound, who else is doing this and found out a lot of people are. Actually all across South Asia there are so many local responses, basically using business as a way of solving local problems.

Community empowerment, of course Mohamed Younis has become an icon for microfinance, the Bhutanese have articulated gross national happiness, which is an alternative to GDP and so we started to say there's a new consensus evolving. That consensus is coming from the bottom up, it is being articulated in the Himalayan region. It is about rivers and glaciers because the region is connected by the Himalayan glaciers which through the river systems of the Yellow Yangtze in China, the [indiscernible] Mekong in Southeast Asia, [indiscernible] are in fact the watershed and life support system for one third of humanity.

So this is the broader Himalayan region and facing climate change, we use solutions or renewable energy, efficient energy, agriculture which is organic, water recycling, we need to look at inclusive finance, how we are able to help communities mitigate crisis, empower the communities with their own identity. So from this matrix of questions we

came up with a pretty simple, straightforward alternative to the Washington Consensus saying, Himalayan Consensus is about three pillars. Protect local identity through heritage preservation, cultural preservation, but second pillar is, do it through a business. It's not about aid, it's not about setting up a museum, it's about the evolution of culture and it needs to be done through business and empowerment of communities with their own business.

That means changes to the financial architecture that is now putting all the money really in the hands of a few commodity derivative traders, it's not going down through the system and figuring out ways to get money to people and then third, protection of the environment is a priority. It's not just hugging trees, it's actually seeing the solutions to climate change, the solutions to create zero carbon energy and efficient energy and water recycling systems, all is business opportunities, whether it's a state infrastructure investment, or if it's down to a business that decides to go off the grid. All of these are opportunities. So the manufacturers of all the gizmos needed to get there and that's essentially the Himalayan Consensus.

We added that one more element and that is looking at crisis, at conflict. Conflict from our perspective is not created by religion. That is a new narrative. Religions have lived in juxtaposition, side-by-side across the Himalayas forever. It's about people when they're disempowered economically, they don't have access to the resources that they need, or their identity is marginalized and when you have those elements, you have conflict and terror. I'm not saying that Himalayan Consensus can wipe those things off the board, but it can certainly reduce a lot of those problems.