

INSIGHT

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Shades of grey matter in an age of uncertainty

Andrew Sheng says where modern economic models based on linear thinking have fallen short, the more fluid Chinese approach to decision-making can be instructive

We live in an age of science and technology so, strictly speaking, science should be able to forecast the future and help us make decisions better. But, in this age of uncertainty, the best economic models did not predict the global financial crisis.

How did the ancients attempt to make better decisions? They relied on history and experience, or oracles, astrology or mumbo jumbo. You make decisions on the basis of information you have, and without information, you consult someone or something you believe in.

Most people think Chinese philosophy began with Confucius, about 2,500 years ago, but his school became famous because it compiled the existing ancient books into the Five Classics, of which the I Ching (or Book of Change) is one.

My own view is that the I Ching deserves to be considered a book of early Chinese science, rather than divination. The I Ching comprises two books, an earlier classic dated to roughly 1,000BC, and an interpretive text written some 500 years later. The earlier classic comprises the eight trigrams, attributed to Fuxi, the hero of a Chinese creation myth, and the 64 hexagrams, reputedly invented by Duke Zhou, one of the founders of the Zhou dynasty. In simple terms, the eight trigrams stand for eight possible situations, from good to bad; the 64 hexagrams for 64 possible predictive outcomes. The later text is attributed to Confucius and his disciples, which helps to interpret what the hexagrams mean. To use the I Ching for divination or decisions, you randomly choose a hexagram and then consult the I Ching for what it means.

Herein lies a fundamental difference in decision-making between Western science and the Chinese approach to life.

Science developed in the West partly because of the alphabetic language, which means you can define words and meaning much more precisely, since the English language comprises over a million words. The Chinese language, on the other hand, is basically ideogrammatic and phonetic. Most people can read basic Chinese with about 2,000-3,000 characters. There are about 50,000 characters in total. Given limited sounds, tones and characters, the Chinese language is not as precise as English. A single character can have different meanings and sounds, so Chinese words and phrases can only be understood in context.

Western science, following the Aristotelian logic, is essentially reductionist and linear, seeking cause and effect. The language enables conceptualisation to be precise and the logic flow to be consistent. The imprecision inherent in the Chinese language means conceptual thinking is more organic and fluid, and subject to interpretation, including guessing.

In other words, while communication in the natural sciences, such as that between two machines, can be precise, communication between two people carries a huge amount of uncertainty.

Modern economics deals with this problem by assuming perfect information, which actually assumed away uncertainty. Economic models based on perfect information and rational players gave rise to precise or "optimal", first-best outcomes. The first-best ideal is then thought to be a natural outcome.

Real life is not so simple. The eight trigrams mean that in binary good-and-bad or black-and-white terms, there are eight possible outcomes in any decision: good, bad and six mixtures of good/bad. The 64 hexagrams make life even more complicated. By definition, any fundamentalist view of life is more likely to be wrong, because life is mostly shades of grey.

Without understanding these fundamental differences in language, context and decision-making under uncertainty, it would be difficult to bridge the yawning gap between both sides of the Pacific. It also means that the Chinese approach to economics and geopolitics is quite different from what is more commonly interpreted outside China.

Andrew Sheng writes on global issues from an Asian perspective



TREASURE TROVE

Peter Fuhrman proposes a heritage fund to enable the systematic buy-back of China's most valuable artworks

I had the kind of childhood I wish more Chinese children could have. I grew up surrounded by exquisite artworks from China's long and dazzling history. I can still remember as a child holding a Qing dynasty jade vase in my small hands. Cool to the touch even on a hot summer day, the vase was deeply incised with lotus blossoms.

My early encounters with Chinese antiques took place not in China but in my grandfather's house in New York City. He was a successful businessman and developed a passion for Qing and Ming dynasty jade. I inherited his fondness for Chinese culture and art. In my office today in Shenzhen, eight jade pieces from my grandfather's collection are displayed.

Chinese antiques—jade carvings, imperial porcelains, paintings, Buddhist sculptures—are all deeply familiar to me. I have lived around them my whole life. This, sadly, is an experience too few Chinese in the People's Republic will share. It's not only that private collections are rare. While China has been on a museum-building spree this past decade, only a few of the country's 3,500 museums have strong and extensive collections. Beijing's Forbidden City Palace Museum does have some outstanding works of art. Most, though, are newly-built Xanadus with a limited display of works that would never make it into the collection of a minor provincial museum in Europe.

This is not only a problem but an unnecessary blemish, especially now that China has the money and global clout to do something about this. Chinese children grow up with too few opportunities to see up close, especially in smaller and less-crowded settings than the Forbidden City, the beautiful objects made by their ancestors. This should change.

In the recent past, the Chinese government has made promises to bring more artistic masterworks back to the country where they were made. But this has mainly involved an occasional effort to halt auction houses from selling objects looted in 1860 from the Summer Palace in Beijing. The result is any object that can be traced back to the Summer Palace is now bought and sold privately, not at auction.

China should continue to try to right this historic wrong. But, in the meantime, something else can be done. China's government should be out in the international auction market buying Chinese art treasures on behalf of the nation and then distribute these works among museums across the country. The goal: in coming years, every child in China will have frequent opportunities, as I had, to admire, study and be inspired by Chinese art.

The range of Chinese artistic genius is probably more vast than any other civilisation, from Zhou dynasty bronzes cast 3,000 years ago, to Qin, Han and Tang terracotta objects, to fine Song ceramics along with Ming and Qing imperial porcelains, austere huanghuali furniture, florid cloisonné, Buddhist sculptures from the Sui dynasty, Song and Ming paintings, jade objects from Neolithic times all the way through to the 20th century.

Tragically, many of the valuable works of art that remained in China after 1949 were burned or smashed to pieces during the Cultural Revolution, an even more thoroughgoing artistic annihilation than we've witnessed recently from Islamic State and the Taliban. As a result, most of the world's most valuable Chinese art is now outside the People's Republic, in museums and private collections. It's said that there are over 17 million Chinese antiques in the US and Europe alone. It's time more of them made their way

antiques are sold at auction houses in mainland China, Hong Kong, London and New York. Virtually every object sold at the six major Christie's and Sotheby's China antiques auctions each year is better than what's on view now in most Chinese museums.

A Chinese national heritage fund would be a big departure for the government. At the moment, about the closest thing it has is a national lottery. The money is meant to go to support sports and the underprivileged, but where it goes is often hard to trace. A report last year by the National Audit Office suggested that billions of renminbi were misappropriated and bribery rampant.

An art fund, especially if it raised money from public donations, would need to be transparently and professionally managed. Corruption is only one problem. The fund would also need to buy without igniting a big run-up in prices. The Getty Collection in Los Angeles faced a similar problem. It set out to acquire valuable art, and has had more than enough money to do so. It goes to great lengths to buy in ways that don't cause a huge spike that would price everyone else out of the market.

Wealthy Chinese are now active buyers of Chinese antiques at global auctions. Their impact is already felt worldwide. But Chinese plutocrats in general don't donate to Chinese museums. They keep everything under their own lock and key. Trust of civic institutions doesn't run deep. Indeed, when I mention to Chinese friends I intend to leave my grandfather's collection to a museum in China, they often shake their heads disapprovingly. Art objects have been stolen from the Forbidden City. A Guangzhou museum curator was caught selling genuine objects for millions of dollars and replacing them with fakes.

Building museums has proved easier in China than populating them with museum-quality treasures. The sad result is it's easier for school kids in Kansas City to see Song dynasty celadons than at the art museum in Hangzhou (杭州), the major city closest to where these luminous ceramics were made 800 years ago.

In the last five-year plan, it was stated that Chinese culture is the "spirit and soul of the nation" and a powerful force for the country's development. It is a noble sentiment. Art is certainly among the most profound expressions of China's soul and genius. It needs to become more of a living and familiar part in every Chinese child's life.

Peter Fuhrman is chairman and CEO of China First Capital

Chinese children grow up with too few opportunities to see up close the beautiful objects made by their ancestors

back to China and into public collections. Restitution, either voluntary or through international law, is not really an option. Few works other than those from the Summer Palace have a clear provenance showing they were illegally looted.

My humble proposal: the Chinese government could start and manage a national heritage fund to purchase for the nation items of cultural and artistic importance. It would accept cash donations from philanthropic Chinese at home and abroad. At the same time, I'd suggest that every state-owned enterprise voluntarily pay an annual dividend of 0.5 per cent of its profits every year into this national heritage fund. Last year, that tiny dividend would have brought in close to US\$2 billion. Chinese private sector companies should be encouraged to match or exceed this pledge. I'm confident many would.

Every year, about US\$7 billion worth of Chinese

Xi Jinping is consolidating power, but for a higher purpose

Keyu Jin says the Chinese leader's anti-corruption drive is no political purge, as some fear, but an attempt to rein in out-of-control local officials

Much of the world is watching President Xi Jinping (习近平) with concern. Not only has he been reconcentrating power in the hands of the central government, many believe that his radical anti-corruption campaign is a fig leaf for a political purge. They worry Xi is building a cult of personality, much like the one that surrounded Mao Zedong (毛泽东) and fuelled the Cultural Revolution. The truth is far less sinister. While it is true that Xi is, to some extent, amassing power, his motivation is the need to strengthen China—both its government and its economy. To succeed, he must bring a bureaucracy that has spun somewhat out of control back into line.

Over the past three decades, power in China has been decentralised considerably, with provincial and municipal

governments receiving, in an incremental fashion, substantial autonomy to experiment and test reforms aimed at attracting foreign investment and spurring gross domestic product growth. Moreover, they have been granted direct control over resources and local infrastructure development. As a result, subnational governments accounted for an average of 71 per cent of total public expenditure in 2000-2014—a far larger share than in the world's largest federal countries.

The goal was to spur overall growth by encouraging competition among regions. Local party bosses knew their career paths depended on their municipalities' economic performance. And by working hard to spur growth, they have fuelled China's economic rise and secured the ruling

Communist Party's legitimacy in the post-Mao era.

But decentralisation has had its downsides. It has led to substantial waste, exemplified in local governments' massive debts. And it has spurred large-scale corruption.

In a country with stringent regulations and underdeveloped financial markets, private entrepreneurs face high barriers to starting and operating businesses. Illicit deals are what it takes to gain access to the resources and markets they needed, private firms have been more than willing to strike them.

Such arrangements facilitated the entry of hundreds of thousands of private firms into the market in the late 1990s. In an era when growth was the top priority, the corruption that fuelled it was tacitly accepted, and even blithely condoned.



An April 2016 issue of Time magazine features portraits of President Xi Jinping and Mao Zedong on its cover. Photo: AP

But corruption has spun out of control, and now threatens both China's stability and the party's legitimacy. Some local authorities have formed political cliques that work together to protect their illicit gains. These networks became virtually impenetrable, with many officials, by default, becoming the central government's rivals, fiercely defending their economic interests by safeguarding their official posts and perquisites. Unless it reined in the municipal satraps, the central government could essentially kiss its reform plans goodbye.

So Xi stopped turning a blind eye to corruption. He put some local government powers back into the hands of the central authorities. And he launched his far-reaching anti-corruption campaign.

Over the past two years, officials from across the nation have been incarcerated. Rounding up a large number of senior officials (and military officers) who are perceived to be

political rivals may look like a purge. But the fact is that all those who have been prosecuted and sentenced to prison terms were found guilty, based on hard evidence.

Xi's efforts to rein in China's bureaucracy continues unabated. In the short term, economic activity could suffer, as local authorities delay decisions, so as to avoid attracting too much attention. But once the system is cleaned up, China will be in a much stronger position to achieve sustainable and stable economic growth.

Those who fear Cultural Revolution 2.0 need to understand that China is not the country it was 50 years ago. The soil for authoritarianism and a cult of personality has been ploughed under by three decades of increasing openness and economic growth. No one understands this better than Xi.

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