

INSIGHT

Stamp of success

Anita Fung says Hong Kong's depth of experience and liquidity mean it is destined to continue playing the lead role in the renminbi's global rise, even with the development of other offshore hubs such as London

Irrespective of location, the renminbi's international rise will be a wide-ranging event. It will transcend national borders. It will exert a major impact on global trade and investment flows. It will influence how businesses, investors and regulatory functions operate in the decades to come.

Based on the economic road map outlined by China's policymakers, we expect that the renminbi will become a global trade currency, a global investment currency and finally the next global reserve currency. The recent announcement that China and Japan will start direct trading of renminbi and yen to boost trade ties is consistent with this master plan. Direct trading of the currencies between China and Japan demonstrates not only the growing clout of the renminbi, but further reinforces the emergence of the former on the international stage.

Measurable progress has already been made, irrespective of this announcement. Last year alone, about 9 per cent of China's global trade was settled in renminbi (total trade for 2011 was over US\$3.5 trillion). By 2015, over half of China's trade with emerging markets (US\$2 trillion) is likely to be settled in renminbi. But as interest in the renminbi will only intensify, the currency will require deep global support and a broad offshore network and infrastructure.

Policymakers, financial institutions and businesses acknowledge that in order for the renminbi to become a major component on the international stage, its offshore development must move beyond Hong Kong.

Last month, representatives from government and finance converged on the city for the Hong Kong-London Forum to discuss this future development, to enhance the flow of the yuan across borders and to explore synergies by improving links between Hong Kong and London.

While this is a positive development for the renminbi internationally, many are asking what the forum will mean for Hong Kong's status as the leading offshore renminbi centre. Understandably, some market commentators are concerned that the potential establishment of London's offshore business would be to the detriment of Hong Kong's leading status.

This could not be further from the truth. London's development as an offshore renminbi hub would only complement Hong Kong's position. Hong Kong's leadership position will not be threatened, particularly as no other market has received the level of endorsement from the Chinese government as Hong Kong has through policy directives such as the 12th five-year plan.

Hong Kong stands alone as the world's premier offshore renminbi centre for a number of reasons. First, the market is the most developed globally in terms of the offshore renminbi products and services available. For example, renminbi trade settlement, one of the first areas



liberalised by authorities, has increased in Hong Kong from 369.2 billion yuan (HK\$451.7 billion) in 2010 to 1.9 trillion in 2011, based on Monetary Authority figures. In the first quarter of this year, 571.2 billion yuan has been settled.

Hong Kong's offshore renminbi market also provides an unmatched depth of capital markets and financing products, including yuan-denominated fixed income and equity products, yuan loans and overdrafts.

From a foreign exchange perspective, daily turnover last year was around 1 billion yuan on the spot market and 1.8 billion yuan on the forward market.

Second, Hong Kong is easily the largest renminbi market outside mainland China, measured by liquidity. In 2011, renminbi deposits

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in Hong Kong rose 87 per cent year-on-year to 588.5 billion yuan. These deposits did decline by 2.1 per cent month-on-month in March this year but we believe this is largely due to the opening of additional renminbi channels and the onset of more normalised growth patterns.

Another solid example of the depth of Hong Kong's renminbi liquidity pool is found in the rapidly emerging offshore renminbi bond (dim sum) market. In 2011, gross issuance of dim sum bonds was 189.3 billion yuan, triple the 2010 figure. At the end of this April, gross issuance totalled about 100 billion yuan, on track to hit our end-of-year target of between 260 billion and 310 billion yuan.

So how does this compare with London? As of April, renminbi deposits in London stood at 109 billion yuan, but are forecast to grow rapidly. However, London's retail renminbi market is not expected to ever approach the size of Hong Kong's, given the latter's close proximity to mainland China.

While this base is incomparable to Hong Kong, London will serve in other areas as a critical component in the overall picture of renminbi internationalisation. For example, London has and will continue to play a leader-

ship role in facilitating renminbi payments in Europe, which now account for roughly 7 per cent of global renminbi payments according to our estimates.

Additionally, establishing a second offshore renminbi hub will leverage London's standing as the largest and most liquid foreign exchange market globally. The City of London estimates that roughly 26 per cent of the global offshore renminbi spot market is already in London.

Furthermore, expanding the range of offshore renminbi markets will improve pricing efficiency and drive product development. Developing a broader renminbi product range will rest heavily on Hong Kong-based experience, and London has already accepted its willingness to learn from Hong Kong's expertise.

In other words, global infrastructure for the renminbi will only be strengthened by bilateral agreements such as the Hong Kong-London Forum. As renminbi internationalisation will be a staged process, development of London will complement, not challenge, Hong Kong's leading status.

Anita Fung is chief executive officer, Hong Kong, of HSBC

Dark horse

Michael Chugani says suspicions about Leung Chun-ying being a closet Communist Party member could still come back to haunt him



There are those who still can't shake off the suspicion that incoming chief executive Leung Chun-ying is a closet communist. They see him as a Trojan horse planted by the central government to mould us into being more like the motherland. It all seems a bit far-fetched, but believers say Leung's actions since winning the election more than confirm their suspicion. They point to his high-profile visit to Beijing's liaison office in Hong Kong the day after his victory, his hiring of a former Communist Youth League member, and his reported choice of Florence Hui Hui-fai, who has close mainland ties, as head of the new culture bureau.

It wasn't that long ago when even a hint of communist leanings would sink anyone aspiring to be our top leader. Just a year or so ago, Leung ranked poorly in popularity polls on the belief that he was an underground communist. Despite his denials, few felt at the time that he could overcome his communist baggage to become chief executive. Yet he is now our leader-in-waiting.

To understand why so many Hongkongers have embraced someone who not so long ago carried a communist stigma, we have to understand the deep desire for change in our society. People, mostly the grass roots, have long felt that Hong Kong has been heading the wrong way, tilted in that direction by locked-in societal injustice that favoured the privileged. They had no vote but faced the prospect of either Leung or Henry Tang Ying-yen becoming the next chief executive.

Leung had worked hard to reinvent himself by reaching out to the grass roots with promises of change that would make society fairer. The people saw Tang as someone from the privileged class who would preserve the old order. Scandals involving his illegal basement and Chief Executive Donald Tsang Yam-kuen's hobnobbing with tycoons only helped confirm this in the public mind. So they backed the suspected communist rather than the devil they knew. The message was clear: so what if he is a communist, as long as he can bust up the old order.

But that doesn't mean Leung is rid of his communist bogeyman. His opponents still see much mileage in playing the communist card against him. Legislators played the card just last week by grilling Leung's top transition aide, Fanny Law Fan Chiu-fun, on suspicions that Leung was letting Beijing decide the make-up of his new team. Law's fudging only fuelled the suspicion. And, for the first time, the Communist Party will be a target at the annual July 1 protest march. President Hu Jintao (胡锦涛) will be here for the handover anniversary celebrations but the real target is Leung, who assumes office that day.

Leung is fighting fire with fire. He is playing the public opinion card against his critics, who are, likewise, using public opinion to play the communist card against him. Neither of Leung's two post-handover predecessors competed with opponents for hearts and minds. It's a high-stakes gamble for him. Public opinion destroyed Tang. And it has left Tsang's legacy in tatters. If Leung does anything at all that suggests he really is the Trojan horse some suspect, you can be sure his communist ghost will spring right back to haunt him.

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Voices from June 4 echo in today's fight for basic rights

Lijia Zhang says Tiananmen-style calls for change abound without political reform

I was still a rocket factory girl in Nanjing (南京) when the unprecedented democratic movement swept the nation in spring 1989. On May 28, I organised a big demonstration among fellow workers because I believed that we ought to have a say in how we were governed. A week later, at the darkest hour on June 4, the troops opened fire on their own people.

Chen Xitong (陈希同), Beijing's mayor at the time, has described the bloody incident as "a regrettable tragedy that could have been avoided" in a book titled *Conversations with Chen Xitong*, which has just been published in Hong Kong. Chen, regarded as a hardliner in favour of using force, was promoted after the crackdown but later disgraced on corruption charges.

Why did Chen, 81, go out of his way to tell his side of the story now? I'm not sure I totally believe his version; it contradicts others' accounts. But it is interesting to see he has betrayed the official line by denouncing the massacre.

On May 28, 1989, I was inspired to take action after I watched moving TV images of workers marching in the rain. Although a manual labourer, I was patriotic and idealistic, like many youth of my generation. At this critical moment, I wanted to show my support, hoping that our leaders would listen.

I heard news of the crackdown on BBC radio. I couldn't believe it. Chen now says the tragedy "stemmed from the internal [power] struggle at the top level". Whoever

made the decision didn't consider the wishes of millions; those who went on hunger strike, those who took food to the protesters and those who marched in the rain.

The official verdict labelled the event "counter-revolutionary turmoil". To this day, the subject is taboo. Information about it is even more strictly controlled than that concerning the Cultural Revolution. The authorities have tried to erase June 4 from the public memory.

They have not succeeded. Every year, dissidents, intellectuals and ordinary people – even a former soldier involved in the crackdown – write petitions to our leaders, calling for a re-evaluation. Those who lost their loved ones demand compensation. In an extreme case, 73-year-old Ya Weilin (叶伟林) killed himself recently in Beijing, in protest over his son's death in the square in 1989, according to media reports. In the past 23 years, sea changes, many positive, have occurred. The authorities have channelled people's energy into money-making. While keeping a tight grip on power, they have also gradually granted people more personal freedom. Yet, at a fundamental level, ordinary citizens are still kept away from state affairs.

Recently, we all watched in amazement as Bo Xilai (薄熙来), the bold former party secretary of Chongqing (重庆), fell from grace, in an echo of Chen's downfall. It is widely believed he, too, was a victim of a power struggle at the top.

Few expect the next generation of leaders to address the June 4 issue

any time soon. As part of the party apparatus, they know that reopening the old wound may lead to more questions and criticism, damaging the regime's credibility. In the long run, however, the perils of not giving people a voice are greater.

There were many, complex reasons for the rise of the 1989 pro-democracy movement. People were dissatisfied with growing corruption and soaring inflation, and the lack of personal freedom and outlets for expression. The students marching towards Tiananmen were like a spark thrown on to a pile of dry wood – soon people from all over the country joined in, shouting support and venting their grievances.

Last December, the scenes of protesting farmers in Wukan, banners in hand, sparked memories of 1989 for me. More than ever today, the Chinese people are aware of their rights and are willing to fight for them.

In March, Premier Wen Jiabao (温家宝) warned that, without political reforms, a tragedy like the Cultural Revolution may repeat itself. Isn't it the same with the June 4 incident?

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Crossing borders to build the leaders of tomorrow

Carol Christ says exposure to different cultures is essential in helping women succeed at the top

As president of the largest women's college in the US, I am encouraged by the growing recognition – around the world – that educated women are the hope of our nations.

International understanding is key to that education. As countries across Asia recognise the need to broaden the exposure of their students – women and men – to other cultures and intellectual traditions, the potential increases for developing future leaders.

Throughout their history, women's colleges have had the opportunity, privilege and determination to educate women of promise from all over the world. Today, we see these women leading and serving in every cultural and civic capacity.

One key to our success is our early commitment to international education. Women's colleges – Smith, in particular – were among the first US institutions to recognise the importance of study abroad. It was a bold act for Smith to send a group of young women abroad to Paris in 1925; to Madrid and Florence in 1930 and 1931; and to Geneva in 1946, to a Europe just beginning to recover from war.

Many alumnae helped found schools, colleges and relief movements around the world, notably in Asia. In 1913, two women leaders, Helen Montgomery and Lucy Peabody, initiated an effort to raise money for seven new women's colleges in Asia by pairing them with seven American sisters. Smith's partner

was Ginling College in Nanjing (南京), a link that lasted more than three decades. In some years, Smith College and its alumnae provided an estimated one-quarter of Ginling's annual budget.

Developing an international understanding within students remains critical today. This year, Smith stepped forward to serve as the US academic planning partner for the establishment of a new women's university, in Malaysia, to be known as the Asian Women's Leadership University. It will bring together the best educational practices of the East and West, a curriculum based on the ideals of a liberal arts education, within a vibrant residential learning community representing women from diverse backgrounds.

As the world becomes increasingly "flat", the challenges faced by nations and higher education institutions grow in depth and urgency. Regardless of nationality, students cannot succeed in a world they have not broadly lived in, and they cannot lead across borders they have not themselves crossed. Making progress in addressing societal issues around the world requires intelligent women from many nationalities and socioeconomic backgrounds, who are globally educated and prepared to lead.

Carol T. Christ is president of Smith College, in Northampton, Massachusetts, one of the historic Seven Sisters and one of the largest women's colleges in the US

Numbers on health-care aid add up to great gains

Jeffrey Sachs says spending on disease eradication has clearly saved and improved millions of lives

The critics of foreign aid are wrong. A growing flood of data shows that death rates in many poor countries are falling sharply, and that aid-supported programmes for health care have played a key role. Aid works; it saves lives.

One of the newest studies, by Gabriel Demombynes and Sofia Trommlerova, shows that Kenya's infant mortality (deaths under the age of one) has plummeted in recent years, and attributes a big part of the gain to the massive uptake of anti-malaria bed nets.

In 2000, Africa was struggling with three major epidemics. Aids was killing more than two million people each year, and spreading rapidly. Malaria was surging, and tuberculosis was soaring. In addition, hundreds of thousands of women were dying in childbirth each year.

These interconnected crises prompted action. UN member states adopted the Millennium Development Goals in September 2000. Three of the eight goals – reductions in children's deaths, maternal deaths, and epidemic diseases – focus directly on health. Likewise, the World Health Organisation issued a major call to scale up development assistance for health. And African leaders took on the challenge of battling the continent's epidemics.

Donor aid did start to rise sharply because of these efforts. In 1995, total aid for health care was around US\$7.9 billion. By 2010, it had grown to US\$26.9 billion.

The expanded funding allowed big campaigns against Aids, TB and malaria; a major scaling up of safe childbirth; and increased vaccine coverage, including the near-eradication of polio.

The public-health successes can now be seen on many fronts. Around 12 million children under five died in 1990. By 2010, this had declined to around 7.6 million – still far too high, but definitely an historic improvement. Malaria deaths in children in Africa were cut from a peak of around one million in 2004 to around 700,000 by 2010, and, worldwide, deaths of pregnant women almost halved between 1990 and 2010 to 287,000.

Another US\$10-15 billion in annual aid (that is, roughly US\$10-15 million per person in the high-income world) would enable still greater progress.

Unfortunately, at every step, a chorus of aid sceptics has argued against the needed help. They repeatedly claim that the funds will be wasted; that the poor won't use anti-malaria bed nets; or take anti-Aids medicines properly, and so on. Their vocal antagonism still threatens the funding needed to get the job done.

A decade of significant progress in health has proved the sceptics wrong. Aid for health care works – and works magnificently – to save and improve lives.

Jeffrey D. Sachs is professor of economics and director of the Earth Institute at Columbia University. Copyright: Project Syndicate