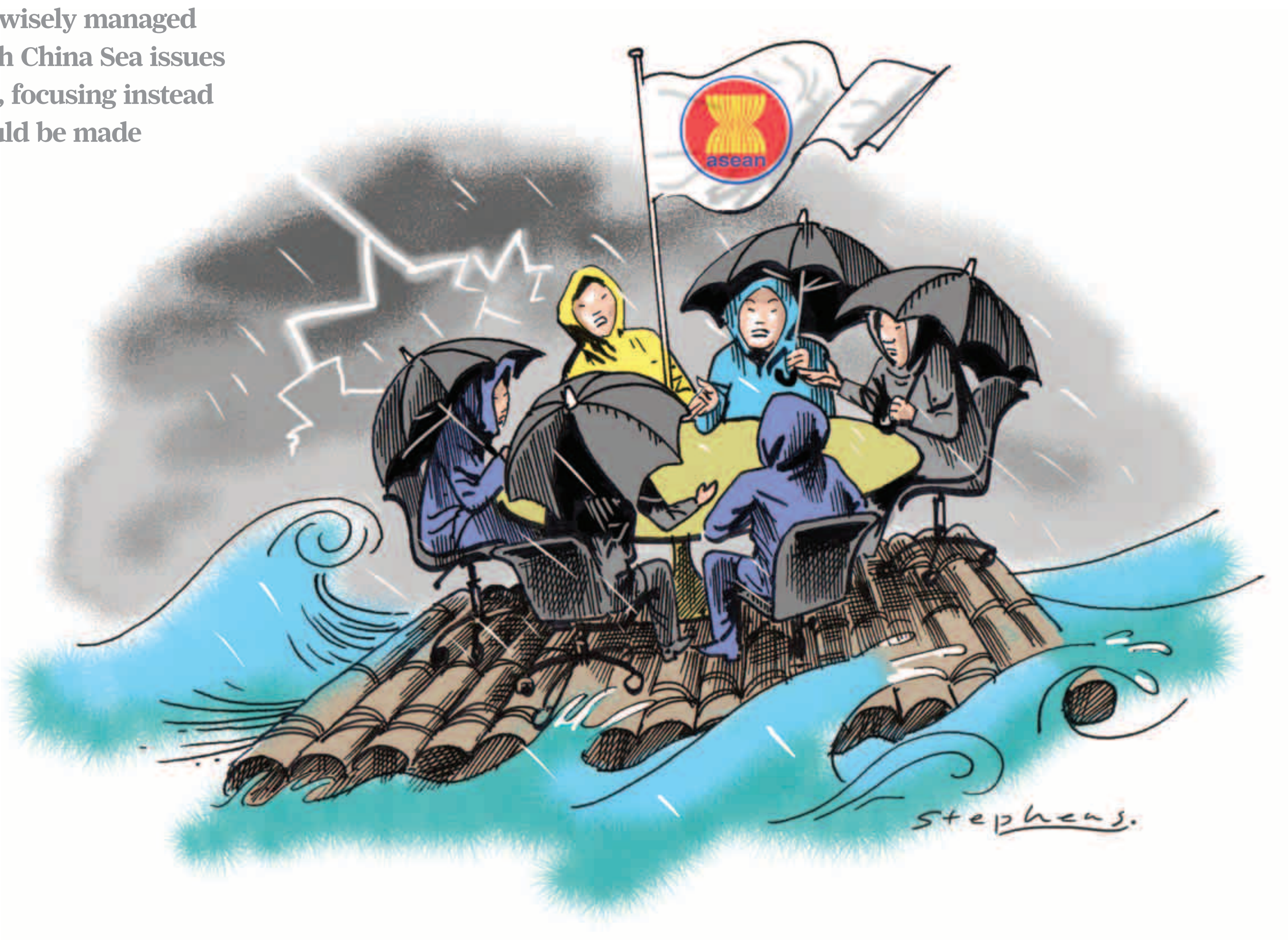
INSIGHT

Riding out the storm

Simon Tay says Asean leaders wisely managed to avoid controversy over South China Sea issues during their Myanmar summit, focusing instead on matters where progress could be made



When leaders of the Association of Southeast Asian Nations gathered this week in Myanmar, the weather forecast was for high temperatures combined with a chance of storms. The political atmosphere proved similar, with lightning-rod issues converging on the regional group's first summit of the year.

South China Sea disputes demanded attention, with strained relations between China and some Asean members coming to the boil amid new developments. Just days before the summit, Vietnam and China traded accusations over ships being rammed as Beijing put in place a rig to begin drilling for oil. The Philippines, meanwhile, arrested 11 Chinese nationals for illegal fishing, even while China continued to demand their release.

Other Asean members face domestic problems, most visibly Thailand. The kingdom was represented only by a deputy caretaker premier, Phongthep Thepkanjana, following the constitutional court's decision last week to remove prime minister Yingluck Shinawatra and nine other ministers on charges of abusing power.

What can Asean do in disputes involving China? In face of some members' domestic problems, can Asean progress to be a community? How could Myanmar, chairing the group for the first time, cope?

On the South China Sea, Vietnam's prime minister, Nguyen Tan Dung, claimed China had committed "dangerous and serious violations". Manila also issues complaints about China. No one contradicted these voices, but without Beijing present, the group declined to judge the issue, in the interests of fairness.

Realistically, the summit could never have expected to do anything more. The much more modest aim was to avoid a disaster akin to events two years ago when the then chair, Cambodia, appeared to favour China and the meeting ended in an impasse. Avoiding a repeat could not be taken for granted, however.

After all, Myanmar is not only chairing the grouping for the first time; it also maintains a close relationship with Beijing. Even as the country has opened up to others, including the US, the Chinese presence is strong in the economy and a permanent factor because of their long, shared border.

Against this background, it is positive that, rather than a deafening silence, a statement was agreed that highlighted "serious concerns" in the South China Sea and called for restraint – without, however, taking sides. After all, some Asean claimants have in the past taken steps to begin exploration for resources.

In this context, Asean and its current chair have done the right, if discreet, thing to address the issue while maintaining neutrality and an even-handed leadership.

Fairness and discretion were also evident in approaching the situation in Thailand. In the past, the group would usually have avoided commenting on such an issue, under the principle of non-interference in matters of domestic politics. But as Asean moves towards becoming a community, there is a need for such issues to be addressed.

Yet while Cambodian Prime Minister Hun Sen proposed a statement by leaders, in the end only Asean foreign ministers issued one. Moreover, it was non-partisan in expressing full support for dialogue, democratic principles and the rule of law in dealing with the challenges in Thailand.

> **This may not seem like much. But on such issues, even the great powers cannot command outcomes**

Again, this was something of a challenge for the group, especially given that the Hun Sen government has previously sided with former prime minister Thaksin Shinawatra and is itself facing similar street protests challenging its legitimacy. Again, a middle path seems to have prevailed, with Asean neither falling into silence, nor allowing any one side to capture the regional voice.

This may not seem like much. But on such issues, even the great powers cannot command outcomes. Indeed, while US President Barack Obama recently swung through the region to give security assurances, this has not prevented the recent maritime contentions.

In this context, some may reckon that a group made up of merely middle to smaller countries is wise to preserve its role and credibility, even at the cost of curbing ambition. Asean is weathering, rather than seeking to control, these storms.

For areas of ambition, one should look instead to the group's own agenda. The summit focused on the timely realisation of the Asean Community by 2015 and strengthening the group's institutions and decision-making processes. Behind this technical and bureaucratic language is an effort to position the group as more unified and decisive in the future.

While not grabbing the headlines, the group has also considered ways to move ahead on negotiations with China on a number of issues. This involves not only the code of conduct regarding behaviour at sea, but also on broader economic cooperation. Progress with the group's economic community is also key to its continued competitiveness and relevance to the region in business as well as politics.

There are items on the agenda where Asean can and should make progress. There are also controversies and storms beyond its control that must simply be weathered. The wisdom of this summit, the first hosted by Myanmar, was to try to judge which was which.

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A step too far

Kelly Yang says there are better ways to help schools facing rising rents than by doing away with a height restriction needed for safety reasons

Education Secretary Eddie Ng Hak-kim said last week that the bureau is reconsidering a requirement that schools and kindergartens be located no higher than 24 metres above ground, in an effort to tackle the problem of soaring rents for schools.

The current limit means a school can be housed no higher than the sixth floor of a building. Lifting this ban may not seem like a big deal but it should be of colossal importance to every parent, child or teacher in Hong Kong.

The move comes at a time when kindergartens increasingly face eviction by rapacious landlords. Just last month, Topkids International Preschool was priced out of its premises in Tin Shui Wai.

As a school principal, I know first-hand the problem of soaring rent and the crippling effect it can have on schools. High rents affect any business, but since schools need to have their premises licensed by the Education Bureau, they have even less mobility, and thus less bargaining power in lease negotiations.

Currently, for schools and preschools, trying to secure commercial and retail office space at a reasonable price in Hong Kong that also happens to be on or below the sixth floor is like finding a needle in a haystack.

Yet taking away the 24-metre restriction will open another, much worse, can of worms. It will undermine children's safety, and that is a problem far more frightening than soaring rents.

Let's first consider how the height restriction came about. The Education Bureau and the Fire Services Department set the rule for good reason: there's a real concern that, in the event of a fire, children cannot reasonably be expected to safely evacuate a school if it is located on too high a floor. Young children simply cannot walk down that many stairs in one go.

If we lift this restriction, it would mean that schools would be allowed to operate on the 10th – or even the 20th – floor of an office building. That may sound perfectly fine now, but what will happen to the dozens, if not hundreds, of children studying in the school if a fire breaks out, as in 2011, in Mong Kok, where nine people died and dozens more were injured? There's no way all those kids would be able to safely make it out of the building.

Instead of looking at easing the 24-metre ban, the government can provide more support to schools like Topkids, particularly in helping them negotiate with landlords.

Landlords should also be encouraged to sign longer leases with schools. Right now, many private educational centres and kindergartens operate on standard two-year leases, which leaves them vulnerable to the landlord's whims and demands. If every school signed five-year leases, it would greatly improve stability in the education sector.

While I applaud the education secretary for trying to solve the problem of soaring educational costs and rent, lifting the 24-metre restriction is not a good solution. It would jeopardise the safety of all our children and that is simply too high a price to pay.

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Direct conversion with the euro likely to be the next step in yuan liberalisation

G. Bin Zhao expects steady progress, given lack of geopolitical friction between Europe and China

Direct conversion between the renminbi and the yen, which began about two years ago, has been an important milestone in the process of internationalising the Chinese currency.

Although there has been a lot of progress towards the free conversion of the renminbi over the past two years, the outcome has yet to meet market expectations. Direct exchange with major Western currencies is a necessary component of this process and there is no doubt that the euro will be another important option.

China has recently overtaken the US to rank first in global trade and many countries maintaining large trading relationships with China want direct currency exchange with the renminbi, to reduce foreign exchange costs and boost bilateral trade.

Yves Mersch, a member of the executive board of the European Central Bank, said recently that the direct conversion of the euro with the renminbi would be conducive to growth in both economies. Although neither side mentioned the possibility of direct convertibility when President Xi Jinping (习近平) visited Europe in March, expanding financial cooperation was undoubtedly a key reason for his visit.

As evidence, the Chinese government granted France a quota of 80 billion yuan (HK$100 billion) for its renminbi Qualified Foreign Institutional Investor programme, and the central banks of China and Germany signed a memorandum of understanding on establishing a renminbi clearing and settlement mechanism in Frankfurt.

In fact, once this business begins in Frankfurt, it could mean direct exchange between the euro and the renminbi would start in Germany. However, this would not necessarily signal the official start of direct convertibility in the entire euro zone.

Direct conversion between the renminbi and the euro is likely to be launched after consultations between the Chinese government and each sovereign European state, rather than being decided by the European Central Bank and the People's Bank of China.

> **It is entirely reasonable to expect direct exchange to begin in Germany**

China and the EU are major trading partners, with Germany being the largest euro trading partner. Thus, it is entirely reasonable to expect direct exchange to begin in Germany, to be gradually expanded to other countries.

Among these other countries, Britain has historically managed to reap significant profits as a US dollar offshore centre, so it is expected that direct conversion of sterling and the renminbi may happen soon. Within the EU, Britain has made the strongest effort for offshore renminbi business. These efforts have yielded fruitful results, as demonstrated by the 200 billion yuan currency swap agreement signed in mid-June last year.

Direct conversion of the renminbi and the euro would benefit both sides. In addition to the trade benefits, it would more importantly accelerate the free conversion process for the renminbi while enhancing the international status of the euro.

In the long term, it would help create an international financial and monetary system consisting of three pillars – the US dollar, the euro and the renminbi – thereby contributing to the formation of a multipolar world order.

Two years ago, China and Japan worked together to pioneer direct exchange of the renminbi and the yen, leading to deeper economic and financial integration, which reflected the far-sighted strategic vision of the two leaderships.

Unfortunately, due to disputes over the sovereignty of islands in the East China Sea, historical troubles, or perhaps because of a wedge driven in by external forces, the two sides have become isolated from each other politically.

There are no potential geopolitical conflicts between the EU and China, so the direct exchange of currencies can be expected to enhance deeper all-round economic and financial cooperation, including prompting Chinese enterprises to increase investment in the EU, facilitating the purchase of more euro-zone government bonds by China, and even enabling China to hold more euros in its huge foreign exchange reserves.

Finally, China still does not have a fully developed goal or schedule for implementing free convertibility and internationalisation of the renminbi. The Communist Party's third plenum guide for reform talked only of accelerating market-oriented financial reform and gradually implementing capital account convertibility. Therefore, it is difficult to judge the worldwide role the renminbi will play in future.

Some people are concerned that the renminbi will challenge the global dominance of the US dollar in future. That won't happen before direct exchange with the euro is comprehensively established. As a result, the free convertibility of the Chinese currency is at best only halfway there, and remains a lengthy process. It's too early to jump to conclusions.

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Integrity of capital markets relies on professional conduct

Brian Tang expects due diligence and disclosure from all industry players

Hong Kong's capital markets and its participants face a crossroads of opportunities and perils, underscored by recent developments that highlight three significant themes.

First, Hong Kong's regulators are very serious about holding the market's perceived gatekeepers accountable for the quality due diligence and disclosure on which investors depend. In January, the Securities and Futures Appeals Tribunal affirmed a 12-month ban on IPO sponsor Sun Hung Kai International for not exercising sufficient professional scepticism. And to augment the new regime, lawmakers will debate sponsor criminal liability later this year.

Company directors and officers are personally liable under the price-sensitive information disclosure regime introduced last year, and public accountants will soon face greater regulatory oversight.

Second, market participants are subject to increasing competition that has put pressure on deal execution and quality. WH Group's record 29 appointed bookrunners competing for the same pot of fees arguably hindered (rather than helped) its aborted IPO. And the debate over Alibaba's IPO listing venue certainly highlighted tensions between international stock market competitiveness and corporate governance.

Third, the current high-level focus on corporate corruption and fraud, such as the allegations against China Resources' former chairman, elevates concerns about expectations on gatekeepers to identify "red flags" and improprieties.

Since the global financial crisis, there has been a tremendous growth in financial legislation and regulation around the world to address misconduct and prevent another crisis.

Yet it's become clear that more rules alone are not enough and attention is turning towards business culture and conduct.

Institutional and retail investors rely on capital markets' integrity to give them confidence to price, invest and trade in securities.

> **Professionals must tell clients what they need to hear, not merely what they want to hear**

Quality capital markets in turn rely on quality due diligence and disclosure by practitioners and gatekeepers, many of whom are in fact paid directly or indirectly by the same issuer company selling the securities.

Hence, practitioner professionalism is critical to capital market integrity. These professionals, who have pride in their technical expertise, must balance business self-interest with providing the best service to clients and responsibility to a broader community of investor stakeholders who rely on their work. To provide good advice on disclosure, deal structure, corporate governance issues and securities pricing, professionals must often be willing to ask hard questions and tell clients what they need to hear, not merely what they want to hear.

Traditionally, apprentices learned to exercise professional judgment on the job under their masters. In recent decades, globalisation, competition and shareholder ownership pressures have eroded professional standards.

Global capital markets would benefit greatly from a platform that re-emphasises professionalism to give voice to the shared value of market integrity.

It would bring together investment bankers, lawyers, accountants, investors and regulators, as well as corporate disclosure professionals such as directors, CEOs, CFOs, company secretaries and general counsel, who are ultimately responsible for timely disclosure of material information.

While such an industry-wide initiative faces tremendous challenges, it would help restore trust and reinforce Hong Kong as one of the world's leading international financial centres.

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