INSIGHT

Wires crossed

G. Bin Zhao says the rosy view that China is now capable of rewiring the global financial system, even if it intended to do so, is just not realistic, given the limitations of its economy today

A recent *Financial Times* commentary titled "China: Turning Away From the Dollar" has led to many heated discussions. It is interesting that the Chinese edition of the paper translated the title as "China Will Rewire Global Finance", based on the main theme of the article. Oh, really? Although many indications show that China seeks to influence, or at least modify, the world financial order – as this is seen as an important way to maximise national interests – it is definitely premature to conclude that China intends or has the ability to reshape the current global financial system.

In the writers' estimation, Shanghai will one day be the centre of the world and the renminbi the currency of choice. For the people of China, who are in a transition from high-speed growth to a relatively slower rate of economic development, these words are very encouraging. Leaving aside whether or not it is realistic, the key question is how long we need to wait for this future. Even the blueprint of the "Chinese Dream", as depicted by President Xi Jinping (習近平), does not seem to include such beautiful scenery.

Avoiding large confrontations with the US is [vital] for China to continue to develop its economy

Does China really have the ability to reshape the current global finance?

First, can China reduce its massive holdings of US Treasury bonds? The concern is that such a move may affect US debt financing and global interest rates, thus increasing corporate financing costs and further curbing economic growth in the West. But this worry is alarmist. Although there has been no recent increase in Chinese holdings of US Treasury bonds, there is only a slim possibility that China can reduce its huge holdings in the future.

The truth is that US Treasury bonds actually accounted for only about one-third of China's US$4 trillion foreign exchange reserves (about US$1.25 trillion) at the end of October. Although US debt has had poor performance in terms of preservation and appreciation in recent years, it is difficult to find a safer product with stronger liquidity for an investment of this size within the global market. Note that Japan, a much more developed country than China with a far more advanced financial sector, also holds US$1.2 trillion of US debt.

Second, is China's current financial strategy sufficient to have an impact on the global system? On the one hand, outward direct investment from Chinese companies is expected to reach US$120 billion by the end of this year, while the domestic market continues its integration with the global economy. On the other hand, it has become apparent that China's growing financial needs cannot be satisfied through existing institutions such as the World Bank, the International Monetary Fund, the Asian Development Bank and so on.

This explains the need for other options, such as the creation of other financial entities such as the BRICS development bank, the Asian Infrastructure Investment Bank and the Silk Road Fund.

China's investment in these initiatives is estimated to be US$100 billion to US$200 billion, but the initiatives' ability to smoothly serve and promote the foreign expansion of China's economy is still unknown.

By contrast, the World Bank, which started its operation nearly 70 years ago, had a total value of US$52.6 billion in loans, grants and equity investments last year; how long will it take for the development banks established under China's lead to be so extensively influential? How long will it take for the BRICS development bank and the Asian Infrastructure Investment Bank to reach the World Bank's AAA rating level, which enables it to finance at lower costs, making its long-term development initiatives so competitive?

Third, when will the renminbi actually compete with the US dollar? Some believe the process of internationalising the renminbi is going faster than many people expected, because in October, more than 22 per cent of China's trade was settled in renminbi, which has become the seventh largest common currency of payment. But clearly, this ranking does not correlate with the country having the world's second-largest economy.

The internationalisation of the renminbi is currently lagging behind Chinese overseas investment and economic globalisation. As evidence, the Chinese government, which is often good at developing grand plans, still does not have a timetable for one of the basic steps in the internationalisation process – free conversion of the renminbi. If it will happen in 2020, as some unofficial sources say, then now is not the time to worry about when the renminbi will compete with the dollar.

Finally, China must always keep a clear understanding that the current US dollar and US-centric world financial system is closely related to the core economic interests of the United States, and avoiding large confrontations with the US is one of the preconditions for China to continue to develop its economy.

By annexing Crimea and getting militarily involved in Ukraine, Russia incurred economic sanctions from Western countries, which led to a drop in oil revenue, an almost complete collapse of the rouble, and enormous economic difficulties. This is not just a living lesson, but also a warning for China.

The reality is, although China is the world's second-largest economy, the "quality" of its economy still does not match those of the US, Japan and Germany. China will still be at the low end of the international industrial chain in many aspects for a long time. The Apple-Foxconn comparison is a typical example: on one side are hundreds of thousands of skilled Chinese workers who frequently work overtime to earn an annual salary of only a few thousand dollars, while on the other side is one of the world's most profitable and influential companies and served by a much smaller number of the most talented people from all over the world. How, on such a fragile and rather backward basis, can China rewire the global finance?

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Acting for peace

Alice Wu sees the step towards normalised US-Cuban relations as a 'radically moderate' move the world could use a lot more of

The idea of being "radically moderate" may seem like an oxymoron at first glance, but with today's "all or nothing", "you're either with us or against us" vitriol passing for actual political dialogue, being moderate is "radical", indeed.

It is radical in a world where efforts to re-establish a minimal relationship between the United States and Cuba, after 50-plus years of hostility, have been met with scorn so resolute in some quarters that it's absurd. The fact that normalisation took this long – after more than 20 UN General Assembly resolutions calling for an end to the United States' decades-long economic and financial embargo against Cuba – is shocking in itself.

Of course, US-Cuban relations, like all relationships, are complex, and those complications reach far back. But their frozen ties deserved a fresh look, not a further retreat into the bottomless pit of dogma.

Not a few people have worked tirelessly towards that normalisation. US President Barack Obama and Cuban President Raul Castro announced on December 17 the beginning of a process of normalising relations, but that announcement was only the fruit of at least a year's worth of negotiations in Canada and Vatican City, facilitated by an incredible amount of goodwill by Cubans and Americans, and by those who were neither Cuban nor American.

Pope Francis is said to have played an instrumental role in this. And a Vatican statement in October confirming his work "to facilitate a constructive dialogue on delicate matters, resulting in solutions acceptable to both parties" is the very sort of active moderation the world needs.

It is indeed easy to fall back on old rivalries, reasoning and policies, in spite of their glaring failures. In a world where logic can so easily be abandoned for the sake of proving one side to be "correct", it is a challenge to see, let alone consider or act on, alternatives. If the mind of a free man asks: "Is it right?" then those not-so-stupid among them will ask: " Is it good?"

It's human to be risk-averse. No one knows whether trying a different way, choosing a different path, would yield results, but uncertainty is not an excuse to insist on being shackled down by history.

It's one thing to say "if it ain't broke, don't fix it", and yet another to say, "even if it is broke, don't fix it". To recognise failure, to put work into trying to find an alternative, without any guarantee of success, is courageously radical.

Our financial secretary, John Tsang Chun-wah, called on the people of Hong Kong to "agree to disagree". But being actively moderate means going beyond that. It means doing what Pope Francis had done, and what Pope John XXIII had done also, in 1962, to pull Washington and Moscow away from the brink of nuclear disaster in what became known as the Cuban missile crisis. Reaching out to adversaries, taking risks, and working hard behind the scenes are acts that have the potential to radically change the status quo. It is actively disagreeing to being held hostage to disagreements.

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Globalisation forces major companies to watch their diplomatic Ps and Qs

Andrew Hammond says the uproar caused by The Interview is a situation big firms know well

Sony Pictures Entertainment began on Thursday a web release and limited screening in US theatres of the satirical movie, *The Interview*. This follows threats from hackers of attacks against any cinema showing the movie, whose fictional plot includes a plan to assassinate North Korean dictator Kim Jong-un.

This latest twist in what has become an international diplomatic incident follows a significant cyberattack on Sony Pictures Entertainment, allegedly by Pyongyang.

The incident has put Sony Pictures Entertainment, the US subsidiary of Japanese-based Sony, in the international diplomatic spotlight. First, the firm was condemned by Pyongyang for making the movie, which it claims undermines the "dignity of [the country's] supreme leadership".

Second, US President Barack Obama and others in the political and artistic communities have criticised Sony Pictures Entertainment's original decision to postpone, or possibly cancel, release of the movie because it appeared to give in to the demands of the cyberattackers. Obama said: "We cannot have a society in which some dictator someplace starts imposing censorship."

This intriguing episode underlines the potential for business decisions, whatever their motivation, to become intertwined with foreign relations among states and companies. In effect, the traditional public-sector concerns over public policy and private-sector concerns over corporate affairs become blurred in sometimes thorny issues in politics, human rights and/or the law.

To be sure, this is nothing new, but it appears to be increasing in incidence and salience. This is driven in part by globalisation, and also the growth of key industries, including new technology.

For example, during the Egyptian "revolution", which overthrew Hosni Mubarak from power, the regime forced some telecommunications companies to temporarily shut down their networks. Also, Google and Twitter collaborated on a "tweet to speak" programme that was used as a platform by some anti-Mubarak protesters.

For companies perceived to misstep, the fallout can be increasingly damaging

Last year, Google unintentionally sparked a diplomatic row when it changed the name on its "Palestinian territories" home page to "Palestine". The move prompted an immediate Israeli government complaint. Israeli Foreign Ministry spokesman Yigal Palmor asserted that "Google is not a diplomatic entity, which begs the question why they are getting involved in international politics and on the controversial side".

To be clear, new technology firms are not alone in experiencing issues from working with diverse political authorities across the world. Indeed, internationally focused companies in many other industries, ranging from energy and resources to fast-moving consumer goods, have long been confronted with challenges.

In this complex (sometimes uncharted) territory, firms and indeed entire industries can attract high profile scrutiny. For instance, members of the European Parliament passed a resolution in February 2010, following the disputed Iranian presidential election of 2009, that called on EU institutions immediately to "ban the export of surveillance technology by European companies to governments and countries such as Iran".

To be sure, various international codes of conduct, including the UN Guiding Principles on Business and Human Rights already exist and reinforce the corporate social responsibility practices of individual firms. However, some of the most enlightened companies have recognised the need for a more decisive shift towards what is termed strategic corporate foreign policy.

Corporate foreign policy aligns a firm's external affairs activity – including media relations, risk management, corporate social responsibility, government affairs and operational planning – in a clear, strategic framework.

Examples where firms occasionally have gaps include horizon scanning to anticipate and plan for social, economic and political opportunities and risks. Firms may also need clearer internal guidance in decision-making, protecting stakeholders (including customers), and/or remaining faithful to corporate values.

The relentless march of globalisation, with the interconnections it brings, means that few international companies will escape these pressures completely. And owing to proliferation of media and the influence of civil society and related stakeholders, the actions of firms are increasingly under the microscope.

For companies that are proactive and invest in their capability, the prizes (both in terms of mitigating risk and seizing opportunity) can be significant. And for those that are perceived to misstep, the fallout can be increasingly damaging, both for their reputation and also for the financial bottom line.

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Give people more incentives to opt for private health care

Alex He says a survey suggests many are not yet keen on insurance plan

Hong Kong's long-awaited health care financing reform was finally unveiled this month. If implemented, the voluntary health insurance scheme will bring about significant changes to the city's health financing arrangements, which have been in place for decades.

The key: more Hong Kong citizens who have been enjoying heavily subsidised but often crowded public health care services will need to set aside several thousand dollars a year to buy health insurance and switch to private doctors.

This move will be painful but imperative, given the alarming projection that, if we stick to the existing formula of financing health care, spending on health will take up 27 per cent of Hong Kong's total budget by 2033.

The overloaded public medical facilities need substantial relief from long queues, sometimes years long in specialist care. The key to unlock the door has been well known: enabling the upper and middle classes to switch to the underutilised private sector while letting the public system serve the needy.

It took the government decades to realise that neither mandatory health insurance nor compulsory medical savings accounts could be adopted in this liberal city. The voluntary private insurance is a compromised solution.

But from day one, doubts have been cast on how effective it can be. The findings of a survey conducted by the Hong Kong Institute of Education in August and September may shed some light on public opinion of private insurance, although the survey was conducted before details of the scheme were revealed.

More than 1,000 randomly selected Hong Kong adults were interviewed via telephone. The research has found that close to half (49.8 per cent) of the citizens disapproved of the health financing reform, and more than half (55.4 per cent) of them would not join the proposed voluntary private insurance.

The middle classes, the targeted segment of the plan, have demonstrated rather weak willingness to patronise. Moreover, the insurance appears unattractive to the elderly and those in poor health, even though it does not exclude pre-existing conditions. This suggests that many people would very probably stay within the public health care system unless major incentives were offered.

Lessons learnt suggest that costs would skyrocket unless the insurers are prudent

In the 2010 health care reform public consultation, there was a proposal to set aside HK$50 billion from the government's financial reserve to support health financing reform. The bulk of it was intended to subsidise younger adults and people at high risk to join. But this idea somehow disappeared from the agenda, and 90 per cent of the reserve was proposed to develop private hospitals.

There have been many debates on the proper use of government funding. The survey results suggest that the government may need to reconsider offering subsidies to the target population apart from other incentives such as tax benefits.

The nature of the proposed insurance is commercial with social insurance characteristics. It doesn't exclude any pre-existing conditions, allows the high-risk population to join, and guarantees lifetime coverage. The most daunting challenge to insurance of this type is cost containment, especially in a free market system.

Lessons learnt elsewhere in Asia suggest that costs would skyrocket unless the insurers are motivated and able to act as prudent third-party purchasers. Cost inflation and the resulting jump in the premium would hurt the system. The proposed regulatory framework on private health care providers is a crucial step forward. Transparent billing and protection of consumers' rights are of utmost importance.

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