

INSIGHT

Grow with the flow

Yang Tao says having an international currency will ease the flow of Chinese people across borders and provide a lift to its financial market, both of which can help drive economic growth

In terms of trade clearing, the renminbi has become a regional "hard" currency, and has a large and growing influence with neighbouring trade partners. Meanwhile, a number of Asian, African and Latin American countries already regard renminbi products as reserve assets. And, in addition to accelerating innovation in Hong Kong's offshore renminbi products, New York, London and other traditional financial centres are now conducting an impressive volume of renminbi-denominated investment business.

In the long term, however, if the renminbi is to truly become an international currency, it will need to be used more freely in other countries so that overseas residents and enterprises have easy access to the currency when they need it, and domestic residents and businesses can easily use it for consumption and investment. To achieve this goal, two problems need to be solved: how to make the renminbi "go global", and how to make it flow back into the Chinese market.

First, there are two ways for the renminbi to enter the global market. One is through a trade deficit. For example, in the era of the Bretton Woods system, the United States provided ample dollar liquidity to the world through its current account deficit, which depended on strong domestic demand, but which also caused a serious disequilibrium in the international balance of payments.

The second method is by promoting the export of renminbi capital, and this seems to be more effective. Experience has shown that in the gold standard era, Britain provided a substantial amount of pounds to other countries through capital exports; more recently, Japan provided yen to countries through massive foreign direct investment in the 1980s.

Next, how can we encourage the renminbi to flow back into the Chinese market? This depends on capital controls and the vitality of the domestic market. Financial markets in China are not advanced; capital projects are not yet fully convertible; contact with overseas parties in the financial market has lagged behind the overall reform process; and there are no financial instruments that support active trading.

Based on the dollar's experience, large-scale dollar exports created "oil dollars", "Europe dollars" and "Asia dollars". When these dollars came back to America through the US financial markets, the markets not only provided the necessary funds to support the development of the US economy, but they also provided the

investment and hedging channels that these funds required. China's financial markets cannot provide the necessary support for renminbi internationalisation unless the country promotes innovation and development.

How does the internationalisation of the renminbi fit into the growth trajectory of China's economy? The biggest challenge now is whether a sustained and stable transition can be achieved in the context of a long-term decline.

Short-term growth depends primarily on demand. As urbanisation reaches a tipping point, investment demand is likely to fall and it will be difficult for household consumption to take the lead in stimulating demand; global trade protectionism



If the renminbi is to become international, it will need to be used more freely in other countries

and economic restructuring will also lead to a weakening demand for exports.

Although the short-term appreciation of the renminbi through internationalisation will not benefit exports, it will reduce trade costs and, because of changes in the exchange rate, encourage many businesses to pay more attention to developing the domestic consumer market. It is conducive to boosting imports and thus domestic consumption, and it makes it easier for medium- and high-income earners to allocate assets and invest overseas, thereby increasing the level of income and the power of consumption.

Long-term growth depends on the supply side, which includes capital, the labour force, technology and human capital. The decline in the amount of capital and cheap labour is inevitable; human capital and technological advances will become the focus of long-term growth. So, with its far-reaching significance, renminbi internationalisation has an important indirect impact on both demand and supply.

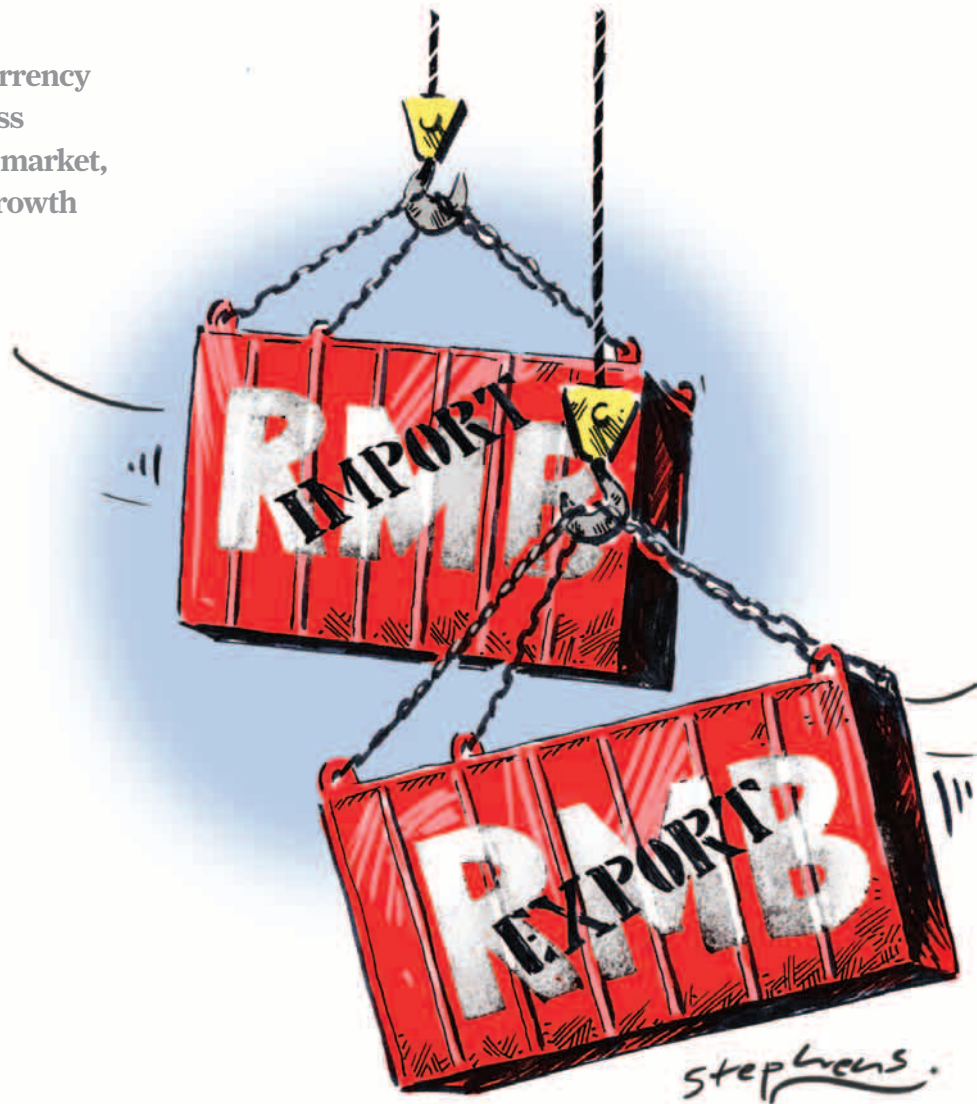
First, through greater interaction between China and the rest of the world. An international currency will make it easier for Chinese to study and live abroad, and draw more talented professionals to

return to the mainland, thus improving the internationalisation of human capital in a continuous flow.

Second, it will promote innovation and development in the domestic financial market. The market can provide significant financing and risk control support for technical progress, promote the adoption of financial service models from developed economies, and lay a financial foundation that spurs technological advances and raises productivity.

Of course, the impact of renminbi internationalisation is complex, but the essential goal is to get China to form a more international and market-oriented development model. Therefore, it can become a new driving force for economic growth. However, this impetus has not yet been fully realised. Only when strategic thinking is clarified, a good domestic foundation built and the right path selected can renminbi internationalisation provide the power for China's economy to take off once again.

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Hooked online

Lawrence Lam says uncontrolled internet use can grow into an addiction that triggers other mental problems, and children are at risk

How often do you miss out on sleep because you're online late at night? How often do you choose to spend more time online than going out with others? How often do you block out disturbing thoughts about your real life with soothing thoughts of the internet? If you answer "always" or "often" to such questions, you may have a problem with internet use.

Problematic internet use has been considered a potential mental health issue since the mid-1990s in the US and Europe, with people exhibiting similar symptoms to other established addictions. Studies have shown that young, introverted men are most at risk, but an increasing number of women are also exhibiting such behaviour.

As the internet becomes more widely available across Asia, problematic use among adolescents – particularly playing online games – is becoming a bigger health issue. The problem is on the rise in Taiwan and on the mainland, according to recent studies. Given the proliferation of mobile technology, it is only expected to get worse.

There has been a lot of debate about whether problematic internet use should be considered a psychiatric disorder or mental illness, similar to other well-established addictive disorders. Doctors in East Asia, including in China and South Korea, are now increasingly using "internet addiction" as a diagnosis.

Studies have shown potential links between psychiatric symptoms, aggressive behaviour, depression and pathological internet use among adolescents. One study on people addicted to the internet, in particular to multiplayer role-playing games, showed that these games induced seizures in some patients. One of my recent studies demonstrated for the first time that young people in China with no mental health problems, but who have a problem with internet use, could develop depression as a result. Subsequent studies of young people elsewhere have confirmed this.

So how can we prevent internet abuse among children and adolescents? A primary prevention strategy must involve parents. Undoubtedly, new technology has brought increased convenience and excitement. However, parents need to be aware of the dangers of technology overuse, and not become "techno junkies" themselves, so they do not set a bad example for their children.

There is no substitute for the presence of parents in the healthy development of children, especially from early childhood to adolescence. An iPad may be a good tool to provide a visual aid in telling stories to a two-year-old, but it should not be used for baby-sitting. Parents need to be more vigilant about their children's internet use, paying attention to patterns of use and what they use the internet for.

Education about online safety needs to go beyond developing an awareness of dangerous content, scamming and identity theft. These elements could be incorporated into primary and secondary schools' general education curriculum.

It is evident that young people who have issues with internet use are most at risk from mental health problems. Thus, screening in schools could help identify at-risk individuals who would benefit from early counselling and treatment.

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China needs a master reform plan that's designed for maximum impact

The 18th Communist Party congress opens today to high hopes that its leaders will endorse a new approach to reform that supports comprehensive, fundamental change in the coming years. At this historical turning point, could this be the breakthrough China will see?

The policy of opening up has been in place for more than 30 years, a subject of discussion at no less than six party congresses. It has transformed China's rigid planned economy into a lively, albeit still improving, market economy. But with economic growth slowing, the ills of social conflict, corruption, unfair wealth distribution and environmental degradation grow clearer by the day. Equally obvious are the problems arising from half-hearted reform.

Reform fatigue has set in. Some people even blame the problems on the reform drive itself, saying that such efforts bring more harm than good. The best answer to such suspicion is to push harder for change.

Relationships between different interest groups have grown more complex. As well, people's expectations of the government have become more varied. In a Xinhua survey of people's concerns, the issues of income distribution, a pension system, equal access to education and corruption all drew attention. The subject of economic growth was not even in the top 10.

Clearly, the basics of a home and three square meals a day are no longer enough to keep people happy; many more now want a say in decisions that affect their lives, and are more ready to advocate for their rights. Their

Hu Shuli calls on leaders to seize the opportunity at a time of transition to draw up and roll out a blueprint for change, aided by experts and scholars



reasonable demands cannot be ignored.

People want reform. While they don't agree on the specifics, almost all back a push for comprehensive change. Policymakers should respond by drawing up a holistic plan to coordinate such all-around reform.

The call for a reform blueprint, proposed in the 12th five-year plan, is now widely accepted. Having a blueprint means setting clear targets and designing a system to implement change. The challenge lies in deciding which reforms to pursue, how to implement them and in what order. A big-picture view is essential, not only because China is in the midst of transforming its model of economic development, but also because evidence-based best practice requires such an approach.

The government should not be content with sloganeering or making cosmetic changes. It's not enough, now, to cross the river by feeling the stones. So, while we encourage innovation and risk-taking at the grass roots, our policymakers must tap the expertise of analysts and scholars to draw up a blueprint for change.

There is a precedent for such a plan. Twenty years ago, when China was similarly at a crossroads, the idea of developing a socialist market economy was proposed at the

14th party congress. Leaders at the time acknowledged the role of the market in allocating resources, and agreed on the need to improve regulation of the macroeconomy. A year later, at the third plenary session of the 14th Central Committee, the government released a set of guidelines that spelled out the rules, variously, for modern enterprise, market function, macroeconomic control, distribution and social security – the five pillars of a socialist market economy.

The targets, rationale and steps to be taken were clearly set out, and this blueprint guided China's reforms for the next 20 years.

Of course, change is easier said than done. Today, the government must first identify the priorities for reform, focusing on those areas where change is most urgently needed and would have the most impact, then draw up in detail the implementation plan for these priority areas. This targeted approach has been shown to work. After the third plenary session of the 14th Central Committee, for example, the government simultaneously rolled out tax, financial system and foreign exchange reforms in one such targeted approach.

Today, China must break up its industry monopolies and reform the price of land, labour and capital. To do this, we must change the role of government

and strengthen the rule of law. These should now be the key elements of a package of reform.

Designing the package is not an exercise for the elite. It should involve the experts and scholars who have boldly proposed solutions; the government officials who listen to public views; the media that risk reprisals to voice support for reforms; and leaders who are open-minded and determined to bring change.

This task is more complex and more challenging than ever before, and it demands both stamina and an open mind from government leaders. At the same time, change on the ground should not be ignored, because such bottom-up change can reinforce the top-down drive for reform, and vice versa.

Crucially, a reform blueprint – so necessary to efforts to direct and co-ordinate change – must not be held hostage by interest groups. Thus, the government should consider re-establishing an agency with sufficient authority to set and carry out policies, and monitor their implementation.

The crisis China now faces is an opportunity to take reforms to the next level. And the window of opportunity to act, which has just begun with the opening of the party congress, will last until the third plenary session of the 18th Central Committee next year. Our leaders would be wise to make full use of it.



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Laos and Russia join the WTO path to higher growth

Donald Gasper says making the most of long-awaited status will take work

Laos hosted the 9th Asia-Europe Meeting in its capital, Vientiane, this week, and many will see this as a coming-out party for the Southeast Asian nation, which is about to become the newest member of the World Trade Organisation.

When, on October 26, the WTO invited Laos to become a member it was the culmination of 15 years of negotiations. The country's lawmakers are now expected to accept the invitation when they meet next month, making it the final member of the Association of Southeast Asian Nations to be accepted into the world trade body. But it will not be the only new member of the club.

While Laos is still an economic minnow, the Russian Federation is a whale. After waiting 18 years from its application to join, Russia became a WTO member in August, the last major economy to do so.

It is likely that both states have in mind China's experiences since its WTO accession in 2001, which, as former Singapore prime minister Lee Kuan Yew once remarked, had the effect of turning the entire country into one big special economic zone. By forcing reforms within the Chinese economy and stimulating a wave of foreign direct investment, WTO membership has been a major factor behind China's high-speed growth over the past decade. Most observers agree it has been a major beneficiary of globalisation since joining.

Laos also hopes to replicate the success of its neighbour Vietnam, which joined the world body in 2007 and has experienced tremendous growth since then. It is true that China and Vietnam were already major exporters before they joined and are considerably more developed than Laos is now.

However, with labour costs rising in China, Laos could develop into a new low-cost manufacturing base for foreign multinationals. In addition, once new rail and road links are built, helped by foreign investment, it could become a major land bridge linking ASEAN with China.

According to the International Monetary Fund, the country is expected to grow by 8.3 per cent this year, making the nation, one of the world's poorest, the fastest-growing economy in Southeast Asia. WTO membership, by lowering tariff barriers and providing a level playing field for foreign investors, will help consolidate this growth.

The same goes for Russia, though some say the best time for it to join would have been a few years ago; the competitiveness of its oil and gas sectors could have been boosted by lower trade tariffs.

Nevertheless, Russia can be expected to follow the path of the other former Soviet states that are now WTO members. They have all seen improvements in the investment climate and in growth.

The World Bank calculates that WTO membership will initially add about US\$49 billion per annum to the Russian

economy, or more than 3 per cent of gross domestic product at 2010 prices. However, David Tarr, a former World Bank economist who took part in Russia's WTO negotiations, has calculated that the long-term gains could amount to the equivalent of 11 per cent of GDP per annum.

One thing that gives foreign businesses the confidence to invest in WTO member states is its trade dispute mechanisms, which provide a useful tool to resolve small and medium-sized disputes. Barack Obama, in the recent debate with Mitt Romney on foreign affairs, referred to successful trade litigation against China using these mechanisms. However, China has also used them in its favour.

As WTO members, both Russia and Laos will have to implement reforms to make trade procedures more predictable and transparent and to facilitate operations for foreign companies.

If they wish to take full advantage of their new status to attract overseas investors, the authorities will have to cut red tape, crack down on corruption and raise the level of legal protection. If this happens, it will certainly be welcome news for investors.

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