

Full speed ahead

Ben Hung says the Shanghai-Hong Kong 'through train' share-dealing scheme, while not perfect, is a big step in the opening up of China's capital account, part of the irreversible journey of market liberalisation

I was surprised to hear the positive news first hand from Premier Li Ke-qiang (李克強) at the Boao Forum last week that investors on the mainland and in Hong Kong will soon be able to trade shares on each other's exchanges. It is not common for such policies to come from the premier himself. The announcement goes beyond adding weight to the importance of the scheme; it underscores Beijing's strong determination for reform.

The Shanghai-Hong Kong Stock Connect programme, or so-called "through train" scheme – is set to be launched in six months, and is a significant step in the opening up of China's capital account. Enabling cross-border two-way capital flows, the programme is a long-awaited, missing ingredient in the internationalisation of the renminbi. Up to this point, the liberalisation of China's currency has primarily been focused on the economy's current account and, in particular, on trade and direct investments. Since last year's change in leadership, there has been a noticeable step up in the pace of reform. This latest Shanghai-Hong Kong linkage is one of a plethora of new measures rolled out by the Chinese government at a breathtaking pace. In the past months, we have seen a widening of the renminbi trading band, the end of the People's Bank of China's control on bank lending rates, as well as the launch of Shanghai's pilot free-trade zone, which opens up two-way corporate payment flows.

The programme is also a first step to quench the thirst of investors for Chinese assets, which have hitherto been inaccessible. Hong Kong, the leading offshore renminbi centre, will soon become the choice connector to bridge, on one side, global investors, who will gain direct access to China's stock market and, on the other, tens of millions of mainland savers keen to diversify their assets.

The "through train" scheme allows mainland investors to trade up to a quota of 250 billion yuan (HK\$314 billion) of Hong Kong shares, and Hong Kong investors to trade up to 300 billion yuan of Shanghai-listed shares. Up to now, access to China's A-share market has been limited to licensed institutional investors going through the Qualified Foreign Institutional Investor and Renminbi Qualified Foreign Institutional Investor quota schemes. The new programme provides a more direct and flexible means for investors, including retail investors, to trade Shanghai-listed shares without having to go through fund managers.

Like most reforms, every change will bring knock-on effects. As a start, the programme may narrow valuation gaps between the Shanghai and Hong Kong



equity markets. The daily 20,000 yuan conversion cap for Hong Kong residents may become the next regulatory consideration in China's pipeline. Listing in Hong Kong may present a fresh appeal to foreign issuers. And, given that the scheme is denominated in renminbi, the implicit convert-

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ibility of the yuan has never been clearer. These are all plausible suppositions for all to bear in mind.

Sceptics may argue that the quotas set by Beijing limit the scale and relevance of the "through train" programme. But it is important to note that the quotas are net amounts, not gross, and that underlying trading value can be many times greater.

For policymakers, it is more straightforward to bring about changes when a mar-

ket is either all open or closed. It is a different matter when a market is trying to move from one spectrum to the other, where far more risk considerations need to be taken. It is true that by imposing quotas, China has stopped short of a complete opening of its capital account.

Yet, quotas are absolutely necessary to manage the transition from a closed economy to an open one – not to mention this is an economy worth 57 trillion yuan and second in size only to the US. Even the smallest degree of change in China's policy could cause tectonic shifts on the mainland, and send ripple effects across global markets.

China always moves one step at a time, starting new programmes small and expanding them in an orderly manner only when the time is right. To be successful, the "through train" scheme will need expanding and it may prove difficult to achieve the desired results without going all the way.

The opening of stock trading will bring about a different approach to qualified foreign and domestic institutional investor schemes. The former offers a new avenue to directly invest in China and Hong Kong stocks, whilst the latter still has its intrinsic portfolio value as it spans a wider spectrum of investment alternatives, including

bonds and futures. The introduction of a "mutual recognition" programme is also on the horizon. This will allow Hong Kong-based mutual funds to raise money from mainland investors and vice versa. All these are progressive examples of China's willingness to experiment with different policy variations in the journey to open up its economy.

The "through train" scheme is part of China's bigger reform train which has strong forward momentum and no reverse gear. It should be clear that the opening of China's capital account is an irreversible journey, just like the internationalisation of the renminbi, which has taken place at breakneck speed in the past few years.

This programme is not perfect. There will be questions and concerns over the quota application, and what happens when quotas are reached. Inevitably, any quota system will create distortions and may induce unnecessary problems.

Investors should brace themselves for bumps along the way, but they should not be put off participating in this significant step in China's market liberalisation. What lies ahead will be well worth the ride.

Ben Hung is CEO for Greater China and Hong Kong at Standard Chartered Bank

Pedal power

Peter Kammerer says a government that refuses to see the myriad benefits of using bikes to commute is doing a disservice to its people



There's a simple way of seeing how interested a government is in serving its people. Get a bike and try to ride it along a busy street. If the ride is hair-raising, even dangerous, it's clear that health, well-being and the environment are being put second to the economy. I'll even go a step further and say that this is a way of determining how forward-thinking those in charge of a city are.

With these parameters in mind, let's turn to a blog posting by musician and mad-keen cyclist, David Byrne. The former frontman for the band Talking Heads travels the world with a folding bicycle and uses it to get a feel for his surroundings. During a visit to our city in 2009, he wrote: "I would like to congratulate Hong Kong for being the worst city for cyclists that I have encountered in the whole world. That's saying a lot. Worse than Napoli. Worse than Istanbul. Worse than Manila." Although that was written five years ago, I'm assured by local cyclists that nothing has changed; you're taking your life into your hands if you venture off the purpose-built recreational cycling paths around Sha Tin and Tai Po.

The government has a stated policy that cycles are mostly for leisure activities. They are viewed as inappropriate for use in urban areas as a way of getting to work or school. This is despite the global trend of embracing them for being zero-polluting, an inexpensive way to commute and helping improve a community's fitness and health. With climate change and obesity being worldwide threats, governments from Mexico City and Sydney to Taipei and Paris are investing in urban bike lanes and encouraging or funding bike-sharing and rental schemes.

Not in Hong Kong, though. The idea that anyone would want to use a bike for anything other than sport or fun is shot down by authorities with a barrage of excuses; safety concerns, narrow roads and an unfavourable climate are most cited. Chief Executive Leung Chun-ying laid out the government's thinking in a brief mention in his last policy address, saying that authorities would work towards a bicycle-friendly environment in new towns and development areas of the New Territories.

Yet it is in our city's urban core on the north side of Hong Kong Island and in Kowloon where bikes would be most beneficial. A rental scheme and places to lock up bikes would help reduce air pollution and improve community fitness. What better way to start the day than to cycle snugly past rows of drivers fuming in traffic jams?

But while there are no laws blocking a cycling culture and more than 100 associations represent interests, the government has yet to adopt a positive mentality. A bicycle corridor along the harbourfront from Sheung Wan to North Point has long been talked about, but remains far from reality. The rising number of licensed private vehicles in Hong Kong proves where the government's heart really lies. Nor are public transport companies as user-friendly as might be expected: the MTR considers bicycles to be bulky items and requires that they be either folded or have their wheels removed.

Cycling is not for everyone. But the benefits bikes bring should not be restricted by blinkered government thinking. They should be considered as much a part of public transport as buses, trains and trams.

Peter Kammerer is a senior writer at the Post

Xi's crackdown on corruption won't lead to a freer and more open society

Nora Sausmikak and **Chang Ping** say political infighting and maintaining stability remain priorities

There is never a total new beginning in political power shifts – no "zero hour". Basic conflict can endure for half a century – like the cleavage between the *bao shou pai* (conservative faction) and *zao fan pai* (rebels) from the Cultural Revolution.

When Xi Jinping (習近平) says today that the princelings are China's "legitimate heirs" of power, he is referring to an argument that was fiercely debated in the immediate aftermath of the Cultural Revolution. The 1980s, and especially 1989, again saw the elite in power divided.

Zhong Weiguang, a former rebel red guard, remembers that, during a marriage ceremony in Beijing in the first half of the 1990s, princelings shouted out: "If we had not had such wise fathers who oppressed the 1989 turmoil, we would have lost our power as early as the socialist governments did in eastern Europe."

Today, the princelings are destroying each other; witness Xi's campaign against "tigers and flies". Zhou Yongkang (周永康) – who has been under assault since the start of the year – belonged to a faction associated with Jiang Zemin (江澤民) and Zeng Qinghong (曾慶紅) while simultaneously, at least according to Hong Kong sources, plotting with Bo Xilai (薄熙來). He was caught in the middle.

When Zhou entered the inner circle of power following

the 2003 National People's Congress, he was closely linked to Zeng, who was then vice-president and for a long time the second most powerful person in China behind Jiang. A typical princeling, Zeng was also head of the Organisation Department and president of the party school.

During the struggle over China's entry into the World Trade Organisation, Zeng was responsible for carrying out an investigation into rural

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uprisings. He was Jiang's closest ally, helping him to restructure the party into a home for millionaires and other "leading personalities in economy, culture and politics". Some Western commentators misunderstood this as the birth of a real people's party representing the majority.

Zhou entered the powerful Politburo Standing Committee in 2007; Zeng left. Being an "heir" of Zeng's insights into personal archives, and closely linked to the secret police, Zhou must have detailed knowledge of

leading politicians' assets. According to Bloomberg, Xi's extended family owns assets amounting to US\$376 million.

Meanwhile, activist Xu Zhiyong (許志永) was sentenced in January to four years in prison after seeking greater transparency surrounding the political elite's assets.

When Xi started his anti-corruption campaign against the tigers and flies, he began by targeting the so-called "Shanghai circle" – former associates of Jiang Zemin. This could have prepared the ground for a new evaluation of Tiananmen – but since most political advocates for the cause had already been pushed aside during the last power shift, there is little hope of it happening.

Unfortunately, Xi's method is like very strong poison – it kills everybody, no matter which faction they are in, but especially those asking questions about the assets of the political elite.

Since his leadership began, Xi has surpassed his predecessors in cracking down on free expression and persecuting dissidents, and this trend is unlikely to change with the downfall of Zhou Yongkang.

Until news about Zhou was officially announced, even the phrase "Kang Shifu" (a brand of ramen noodles used by netizens to refer to Zhou) was unsearchable on Sina Weibo.

Furthermore, just as the regime avoided trying Bo for his more egregious crimes, such as wanton imprisonment, executions and the unlawful

confiscation of private property, all in the name of the "crackdown on black", Zhou will not be tried for his excesses in the name of "maintaining stability" that occurred during his tenure as the secretary of the Central Party Political-Legal Committee.

He expanded the power of the police, brought in secret police, monitored the life of average people at will, brutally suppressed mass incidents, arrested a large number of dissidents and even those who just voiced discontent. Under his watch, internal security spending was greater than that on defence, in effect waging a 10-year war against the people.

Yet, he will not be charged or tried for any of these crimes. What Xi has been trying to do has been described by many as "walking the Bo Xilai line without Bo Xilai".

Likewise, Xi will also be carrying the torch to "maintain stability" that was spearheaded by Zhou and others, and taking it to greater heights.

Dr Nora Sausmikak is a Sinologist specialising in political reform and civil society in China. She leads the China programme at the German Asia Foundation. Chang Ping is a current affairs commentator writing on politics, society and culture

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HK must get behind plans for incinerator, landfill extensions

Richard Vuylsteke says other measures will take time to gain momentum

The Environment Bureau's blueprint for sustainable use of resources has called for co-ordinated action on waste prevention, reuse, recycling, recovery, treatment and landfills to resolve Hong Kong's escalating waste problem.

If the necessary measures are not taken, it will not only harm the quality of life, but also affect the quality of the business environment.

The current forecast is that all three landfills' capacity will be exhausted by 2019, putting Hong Kong at risk of severe environmental consequences.

Time will be needed to implement initiatives to reduce waste at source, which are now being introduced or still under planning. Moreover, these initiatives may at first have only a gradual impact until people change their behaviour patterns.

In addition, even with the landfill extensions requested – and with full implementation of the waste reduction programmes – a long-term need for a significant amount of landfill space will remain.

Given Hong Kong's limited landfill space, a proportion of the residual waste needs to be treated by incineration. Many developed economies have adopted this proven technique for waste reduction. The Environment Bureau has, in fact, proposed a range of stringent environmental controls to mitigate the environmental impact of both construction and operation of incinerators. The bureau has

made significant progress in developing proposals for a holistic approach to waste, such as the recent publication of a comprehensive strategy for dealing with food and yard waste. The government has made efforts to understand and address the concerns of local people living close to the three landfills. It has proposed enhanced landfill management and containment, improvements to waste transportation and odour

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reduction, and announced a HK\$1 billion fund for expediting the development of restored landfills.

The government is engaging the local community and other concerned stakeholders over the proposed location for the incinerator at Shek Kwu Chau. The Environment Bureau recently launched a trial scheme on municipal waste charging. Nevertheless, these environmental infrastructure projects have been stymied, despite wide agreement by a range of environmental experts

that they are necessary. District interests and protests have become the overriding concern – rather than the interests of the community as a whole.

Although a burden would be placed on some districts by extending the existing landfill sites and hosting a new waste incinerator, there are no better alternatives available today. At the same time, we must take action to reduce waste, improve recycling and refine the waste disposal infrastructure.

Key stakeholders, as well as the wider public, should support the proposed incinerator and landfill extensions, along with approval for the necessary funding, to allow time for other measures to reduce waste at source to gain momentum. It is clear that all these actions are needed as soon as possible.

As a world-class city, Hong Kong has an exceptional ability to solve hard problems, and its winning spirit has, for years, led to success. Hong Kong has achieved its standing by demonstrating an exceptional ability to identify issues and then collectively implement sound, practical solutions.

For this waste issue, the threat to Hong Kong's competitiveness and reputation is real. The solutions are well-studied and within reach. The time for action is now. The interests of all Hong Kong people are at stake.

Richard R. Vuylsteke is president of the American Chamber of Commerce in Hong Kong