<u>Panel Discussion on China-focused Topics</u>

Opportunity Knocks
China in the Global Economy

China's economic importance will continue to grow, but patience and perseverance are needed on the part of financial players both inside the country and overseas.

That was the message from a panel discussion on 20 January at the Asian Financial Forum 2010 on the implication of China's domestic market for the global economy and what internationalisation of the renminbi means for the world financial order.

As Panel Chair Ronnie Chan, Chairman of Hang Lung Properties, noted, "China is increasingly playing a role in global affairs, including global financial affairs."

Heavy Lifting

Stephen Roach, Chairman of Morgan Stanley Asia, opened his remarks by trying to wake the gathering from its "complacency."

"You've figured out that the West is in trouble because of the crisis and is likely to be in trouble for some time to come, so you presume that you will inherit the earth and the Asian century has arrived," he said. "I'm an optimist on Asia. I moved out here nearly three years ago because I believe in the future of this region. But it's not going to be that easy. It doesn't happen quickly. It's going to take a lot of heavy lifting for the region and for China."

Dr Roach said China was resilient and its 2009 growth had been outstanding, but that growth was funded by a record surge of bank lending under an artificial stimulus. "China did the right thing in the crisis, but this is not a long-term, sustainable outcome."

The country needed to boost private consumption, which today makes up only 35 per cent of GDP, the lowest level of all major economies, he said. "This is the opportunity for the next China."

Dr Roach, however, pointed to worrisome signs of trade friction with the US that could lead to sanctions. With high unemployment in the US and mid-term elections this year, he said, "I worry that politicians, both Republican and Democrat alike, will take out their frustrations on China."

Renminbi Internationalisation

Huang Haizhou, Managing Director and Head of the Sales & Trading Department of China International Capital Corporation, who spoke about "the implication of renminbi internationalisation on the global financial order," said renminbi internationalisation was in the interest of both China and the world as a whole.

He said that while the US dollar had depreciated significantly over the past 10 to 15 years, it was not yet time to replace it as the reserve currency.

"But its role will continue to be weakened," Dr Huang said, while the foundation has been set for internationalisation of the renminbi in three steps – first as a unit of currency for accounting and settlement, then as an investment currency and finally as an international reserve currency.

Cao Yuanzheng, Chief Economist of BOC International, said the renminbi had been used as a settlement currency for trade for some time. "In terms of settlement, the renminbi has gone global," he said. "It's widely used in transactions."

"But we cannot just rely on trading activities," Dr Cao said. "If we want to make the renminbi further nationalised, we have to open it up on the capital level. We are not fully ready, especially since we have learned from the Asian financial crisis. We want the renminbi to be fully convertible but we also want stability. It's a very important issue to tackle."

Not for the Faint-Hearted

Louis Cheung, Executive Director and Group President of Ping An Insurance (Group) Company of China, speaking on "the China opportunity in the post-subprime era," said the prospect for internationalisation "is looking more exciting now after the crisis." It would mean a shift away from the US dollar, but he said it's not likely to happen in the next five years.

For the renminbi to be internationalised, he said, China needs to be a "net importer of goods and a net exporter of capital."

The mainland market presented a lot of opportunity, though it "is probably not for the faint-hearted," Dr Cheung concluded. "But for the persistent and hardworking industrialists, service providers and investment community, there is indeed a lot we can do in China going forward."

Tu Guangshao, Vice Mayor of Shanghai, said Hong Kong didn't need to worry that the central government was striving to make Shanghai an international financial centre.

"Shanghai and Hong Kong are both influential and they both serve the nation," Mr Tu said. By enhancing collaboration with each other in areas such as dual listings, jointly developed financial products and other cross-market activities, they can achieve synergy to help each other and the country.

"Shanghai will not replace Hong Kong," he said. "On the contrary, there will be deepened cooperation between the two places, and this will be beneficial to the reinforcement of Hong Kong's status." Mr Tu's comments came a day after Hong Kong and Shanghai signed a memorandum on financial cooperation.

''The Chinese Way''

During the question period, an audience member asked whether the renminbi could become a reserve currency in the absence of what the West considers to be democratic government and an independent judicial system.

Dr Roach answered that the mainland had been on the path of economic reform for 30 years "and has delivered economic progress that those of us who study economic development have never seen in our lifetimes." He predicted advancement of political reform in the mainland that "will be very consistent with an ascendancy of the renminbi … but it will be done in the Chinese way and not in the way that we've become accustomed to in the West."