INSIGHT

Beijing's sway

Tom Manning says Chinese leadership offers the best chance of resolving the North Korean missile crisis

North Korean leader Kim Jong-un's brazen testing of an intercontinental ballistic missile was widely condemned by the international community as reckless and provocative. The action was clearly intended to taunt the United States and further intimidate both South Korea and Japan. Years ago, North Korea seemed peripheral to China – now, it has become China's principal external challenge and central to China's image as a leader on the Asian and world stage.

The situation is highly unstable and requires immediate attention. China has wisely emphasised a de-escalation of tensions, and yet numerous factors suggest that will be impossible unless Beijing plays a leadership role in bringing the parties back to the negotiating table. Kim is considered unpredictable and dangerous, and US President Donald Trump is bombastic in his own way, so no one really knows how long this stand-off will last. Without China's help, neither side is likely to back down.

China's relationship with Pyongyang is complicated and dates back to the early days of the Chinese Communist Party. The long-running relationship would suggest a ready means for dialogue, but the current era, which began with Kim's ascent to the top post, has been marked less by warmth and camaraderie than by caution and frustration. In short, China's leverage is likely to be overestimated in the West – and yet, relative to other actors in the equation, it remains best equipped to engineer a peaceful resolution.

The G20 summit last week should have been a venue for voicing concerns and pressing for assistance on this key issue. Given the presence of the five nations which participated in the last attempt at negotiation with North Korea, known as the six-party talks, which began in 2003 and ended abruptly in 2009, the summit presented a prime opportunity to achieve a new meeting of minds. Unfortunately, the meeting did not address the issue in a robust manner. Despite being critical of China's perceived ineffectiveness, the US instead allowed its preoccupation with Russia to distract it from its more important mission. Regrettably, the discussion with China on Saturday was modest and failed to break new ground.

The US allowed its preoccupation with Russia to distract it from its more important mission

It is worth remembering that all five nations – China, Japan, South Korea, Russia and the US – share a strong interest in avoiding military conflict on the Korean peninsula and should support steps towards both defusing the crisis and ultimately bringing about the elimination of North Korea's nuclear weapons capability. A war on the Korean peninsula is in no one's interest – a first-strike military attack by the US would lead to an instant counter-attack and large-scale loss of life in both South Korea and Japan.

Collateral effects would also be costly – fleeing North Korean refugees would strain China's resources, and Chinese citizens working in North Korea could be injured or killed in military exchanges, which could give rise to sudden and hard-to-control animosity across China. The initial anger would focus on the US, but the situation could easily become unwieldy and place Beijing in an untenable position of needing to show restraint while also needing to flash its strength in order to protect its image at home. If the US forces somehow succeeded in bringing about regime change, eventual occupation of North Korea by American and South Korean military forces would redraw the power structure of North Asia in ways unhelpful to China.

Importantly, China can provide the leadership required to address this crisis before it grows even worse. First, China enjoys credibility with all the countries in question, including North Korea, even if its actual influence is somewhat overestimated.

Second, as the most powerful nation in Asia, China has a perfect opportunity to step forward as a thoughtful, responsible steward of the region's stability and prosperity – a demonstration that will not be lost on China's neighbours, who are assessing China's influence and its impact on them.

As the most powerful nation in Asia, China has a perfect opportunity to step forward

Finally, China's skills at diplomacy and collaboration fit well with the situation, which requires deft handling.

One option China might choose is to suggest that the original parties to the six-party talks return to the table to pursue a multistep process of de-escalation, cooperation and development. This is a positive action that could relieve tensions and ensure that all actors develop a common understanding of the situation.

In a first step to de-escalate the situation, China could request that North Korea stop further provocation of the US by halting additional missile tests, while also asking the US and South Korea to refrain from further joint military exercises. Getting North Korea to see the wisdom of this request will require wielding both a carrot and a stick. This means a balance of offering rewards and threatening sanctions, involving just China or alongside the other nations. Whether the countries will accept the idea of providing inducements to a rogue and noisy neighbour will prove a major obstacle and a test of Chinese diplomacy.

Cooperation could be the essential second step of China's approach – not only because China rarely wants to act alone, but because this challenge is too big for any one actor and requires collaboration. China will certainly enlist the help of Russia, a good friend in matters of this kind, and, conveniently, a counterweight to the US. Of course, restarting multi-party talks would be the central theme in a Chinese proposal, but initiating the idea with the US, South Korea, Japan and Russia is the first and most achievable step. Arguably, without this platform, very little bargaining can be achieved with North Korea.

The third step could easily involve China's most accomplished skill – economic development – which North Korea needs desperately. It would be reasonable to expect China to propose a medium-to-long-range economic development plan to help the North Korean economy, possibly defining an enlarged demilitarised region, as a first step, supplemented by the creation of special economic zones, which proved hugely successful to China's own development. The restarted six-party talks would then be likely to identify strategic industries in which companies from the five nations would eventually participate as part of a tailored Marshall Plan for North Korea.

China holds the key to resolve this difficult situation – if it chooses to use its diplomatic skill and economic capability, and its ability to provide enlightened leadership in a crisis of this importance.

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China's long march to global financial power

Thomas Deng says the MSCI inclusion of onshore Chinese A-shares and the start of northbound trading on the Bond Connect will bring in foreign funds and encourage further easing

After a painful defeat by the Kuomintang in 1934, Mao Zedong (毛澤東) led the People's Liberation Army on a series of marches across 9,000km of the Chinese hinterland. The journey would be called the Long March, and Mao's leadership during the 370-day expedition would endear him to soldiers and civilians alike. Many historians credit the event with the leader's ascent to power.

More than 80 years later, the Chinese Communist Party is in the midst of a figurative Long March – the opening of its financial system. Albeit less physically strenuous, the systematic transformation of China's capital markets has the potential to culminate in China's ascendancy as a global financial powerhouse.

The process began in 1978 and took shape over the following decades; with Deng Xiaoping's (鄧小平) reforms in the late 1980s and early 1990s, and China's admission into the World Trade Organisation in 2001, the notable milestones. Significant progress continues to be made. Two recent achievements, in particular, have underlined the central government's commitment to this path: the inclusion by index compiler MSCI of onshore Chinese A-shares; and the start of northbound trading on the Bond Connect.

However, there is much work to be done if the Communist Party is to attain its lofty financial goals. China's economy may be the second largest globally, but, according to Swift (the Society for Worldwide Interbank Financial Telecommunication), renminbi usage accounted for only 1.6 per cent of transactions globally in May, making it the seventh most transacted currency, and a minnow compared to the 42.1 per cent market share held by the US dollar. At the same time, US and European stock financial markets are considered far more stable and mature than China's onshore market.

Still, China's equity (second largest by total market cap) and bond (third largest) markets are among the biggest globally and are almost entirely funded by domestic investors. Heavy regulation has prevented non-mainland-Chinese investors from owning more than a smidgen of Chinese assets. For example, foreign currency borrowing still accounts for less than 5 per cent of total credit in China's financial system.

As the country continues to peel back regulation, China has the potential to rival the US as a global financial hub

But this is set to change with the addition of onshore stocks into MSCI's index family and the latest expansion of the Connect scheme, both of which share the vital goal of enticing foreign ownership of mainland assets. The MSCI inclusion could well trigger US$210 billion in inflows in the next five years, while the Bond Connect could lure around US$250 billion in passive flows over several years, once China is included in the top-three global bond indices (Citi's World Government Bond Index, the Bloomberg Barclays Global Aggregate Index, and JPMorgan's Government Bond Index-Emerging Markets).

Burgeoning fund inflows from abroad have two important long-term implications: first, they would alleviate capital outflow pressure via more robust two-way flows. Chinese investors' pent-up desire to diversify abroad has resulted in mounting one-way flows out of China, which has dented sentiment and stymied the maturation of the domestic market. Cash coming into China would help to negate the net foreign exchange impact, marking a significant structural shift for China's financial market.

Second, fund inflows would probably encourage Beijing to relax its grip on capital controls and therefore encourage further liberalisation of its financial market. For example, the Bond Connect is currently only available to international investors who want to buy Chinese bonds – not the other way around. The southbound route is expected to open once the central government feels more comfortable about the balance of capital entering and leaving the country.

As the country continues to peel back layers of regulation, China has the potential to rival the US as a global financial hub. With increased investment, China's financial markets can become the world's largest. In tandem with ongoing efforts like the internationalisation of the renminbi, China's Long March to a free market should consolidate its leadership in finance, even if not immediately.

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Officials mark the start of northbound trading on the Bond Connect on July 3 in Hong Kong. Photo: Xinhua

Can Hong Kong now expect a bolder push to reduce waste?

Edwin Lau says while we've seen improvements in our air and water quality, the city is grappling with a growing waste problem that needs some of the innovative solutions Lam has promised

A friendlier atmosphere prevailed last week at the first Legislative Council meeting attended by our new chief executive, Carrie Lam Cheng Yuet-ngor. It seems a good start for Hong Kong.

Lam has pledged that she and her principal officials will build a better Hong Kong by being "innovative", "interactive" and "collaborative". She seems well aware of the weaknesses of the last administration.

So we should expect Wong Kam-sing, whom Lam reappointed as secretary for the environment, to make good on her pledge. The public needs to hear from him what innovative measures he is proposing to address our critical environmental problems.

Twenty years after the handover, some environmental problems in Hong Kong, such as air and water pollution, have seen improvements. But others have become worse.

The city's waste problem is an example of the latter. To be fair, Wong has worked hard to promote waste reduction at source. Measures have included events to raise public awareness and the launch in 2013 of the Hong Kong Blueprint for Sustainable Use of Resources. Despite these efforts, however, we're throwing out more waste than before; the per capita daily disposal rate of 1.34kg in 1997 increased to 1.39kg in 2015.

The blueprint has set targets of 1kg by this year, and 0.8kg by 2022 – I doubt we'll meet these if the government does not change its mindset and adopt some innovative policies.

Meanwhile, the recycling rate of our municipal solid waste climbed from 33 per cent in 1997 to 52 per cent in 2010, only to fall back to 35 per cent in 2015. So there has been virtually no improvement.

The decline in recycling rates for plastic waste is even more disappointing. In 2010, some 69 per cent of such waste, or 1,577,000 tonnes, was recycled; in 2015, only 10.5 per cent (or 93,900 tonnes) was recycled. This means that the majority of our plastic waste is ending up in landfills and other places, such as beaches and the sea.

Waste management has been a perennial challenge for the Hong Kong government. Since the handover, successive administrations have rolled out three plans: the Waste Reduction Framework Plan (1998-2007); A Policy Framework for the Management of Municipal Solid Waste in Hong Kong (2005-2014); and the 2013 blueprint, which is to last until 2022.

Edward Yau Tang-wah, the environment minister from 2007 to 2012, did not launch any policy plan during his tenure. Of course, he was supposed to implement the policies set out by his predecessor, but his progress and achievements were questionable.

However, it is true that, during his term and as a result of vigorous lobbying by green groups, the first producer responsibility legislation was approved by Legco in 2009 mandating a levy of 50 cents per plastic shopping bag taken at supermarkets and certain designated stores.

Though waste charging was being discussed as a possible measure, Yau failed to put forward a legislative proposal on the issue, merely conducting a public consultation on it in 2012, a few months before he left office. The lack of a clear policy on waste charging goes a long way to explaining the disappointing situation today.

We now expect Wong to be innovative and bold, as promised by the chief executive, to rectify the omissions of the past and resolve Hong Kong's critical waste problems. I am hopeful Wong will deliver solid environmental improvements to regain public trust.

Edwin Lau Che-feng is executive director of The Green Earth. edwinlau@greenearth-hk.org

Much value in good relations

Syed Munir Khasru says despite tensions over the South China Sea, Singapore and China are continuing their cooperation to spur development

When Singapore announced last month that Chinese Premier Li Keqiang (李克強) will pay a visit to the island nation, the news was widely seen as a sign that tensions between the two countries were easing. Their relations took a dive last year over Singapore's stance on the South China Sea disputes involving China and some of the other Asean countries.

In November, Beijing protested against Singapore's military exercises with Taiwan, after Hong Kong customs impounded nine Singapore armoured personnel carriers in transit from Taiwan after military exercises.

With the dent in relations, China has started looking more towards countries like Malaysia and the Philippines. And with China building its own training capabilities, dependence on Singapore for capacity building in governance is also waning.

But the ties between the two run deep. As recently as 2015, China and Singapore celebrated the 25th anniversary of their diplomatic ties. And Singapore has played a key role in relations between China and the Association of Southeast Asian Nations.

China was Singapore's top trading partner in 2015, while Singapore was China's largest foreign investor. In November 2015, Singapore also hosted the dialogue between President Xi Jinping (習近平) and then Taiwanese president Ma Ying-jeou.

Although Singaporean Prime Minister Lee Hsien Loong's absence from the Belt and Road Forum in Beijing in May raised questions, the city state's deputy prime minister, Teo Chee Hean, emphasised that Singapore will continue to support "China's peaceful development and constructive engagement in the region".

In fact, Singapore was one of the first counties to support the Asian Infrastructure Investment Bank and 60 per cent of the earlier belt and road projects implemented in Asean countries were financed by Singapore.

In a meeting last week in Hamburg between Xi and Lee, prior to the G20 Summit, the two leaders discussed Singapore's role in the Belt and Road Initiative, and closer economic ties through an improved free trade agreement.

Singapore is now confronting a reality that has seen the Trans-Pacific Partnership shelved, the US "pivot to Asia" policy revoked, and uncertainty over the impact of the Trump presidency on Asia. With rising Chinese influence, much is at stake for Singapore considering the love lost in recent times.

For both Singapore and China, there is still much value in having a strategic partnership that, in the past, has served them both well.

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