

# Comment

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**CHINADAILY**

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EDITORIALS

## Boost to partnership

GIVEN WHAT WAS SIGNED AND AGREED UPON yesterday alone, Japanese Prime Minister Yoshihiko Noda's two-day visit to China has been at once substantive and efficient.

The People's Bank of China confirmed that the Japanese government's application to invest in Chinese government bonds is currently being processed. That signals confidence that will resonate beyond the financial field.

There's no doubt that it is a substantial step forward for the internationalization of the yuan, because for the first time the Chinese currency will become part of the foreign exchange reserve of a developed economy. The endorsement by the world's second-largest foreign exchange reserve holder is an essential boost to that process. The new channel for bilateral collaboration is expected to benefit both sides in coping with international financial uncertainties.

Economic exchanges have remained the most vibrant mainstream of bilateral interactions, despite all the vicissitudes in the capricious political ties. That is why a phrase has been coined specifically for this particular relationship: *zhengleng jingre*, or literally "cold in politics, warm in economy". But these ties cannot always stay on separate tracks.

Noda's harvest from his visit will provide additional evidence that when the political climate warms up, economic interaction will get even warmer.

That economic exchanges have survived the frequent ebbs in political relations reveals a shared understanding between the two countries — they are mutually beneficial and indispensable for both. That is precisely what generations of the two countries' leaderships have expected from our overall relationship. Or there would not have been the common initiative to build it into a "strategic partnership of mutual benefit".

Such a partnership, however, entails common endeavors to properly address, and in some cases rise above, the many sensitive issues threatening to poison bilateral relations.

The absence of mutual confidence, an essential cornerstone of any successful partnership, has made flashpoints in Sino-Japanese ties such as overlapping territorial claims in the sea even more difficult to handle.

The stark economic reality — that Japan is our second largest trading partner and we are its top trading partner and export market — indicates neither of us can afford to make an enemy of the other.

Noda's visit, the first by a Japanese prime minister since 2009, is a timely boost to the two countries' thawing ties, just in time to set a friendly tune for next year's 40th anniversary of the normalization of bilateral ties.

The upcoming commemoration will raise bilateral ties to a new level. But to achieve that, there also has to be the support of friendly feelings at the people-to-people level.

## Houses full of hope

HOUSING FOR LOWER-INCOME FAMILIES HAS and should become an important driver of China's stable economic growth in the years ahead, because of weakening exports and the sloppy recovery of the global economy.

Work on 10 million affordable housing units started this year and construction of another 7 million will begin in 2012, a central government meeting said on Thursday. That the Ministry of Housing and Urban-Rural Development has signed a document, on behalf of the State Council, with local governments to ensure they honor their commitments to the program shows the central government's resolve on the issue.

The affordable housing program is an important part of the central government's macro-control policy, which will increase domestic consumption both directly and indirectly.

The construction of such houses will help maintain enough demand for steel, cement and other construction materials. Also, the increasing number of low-income residents who buy affordable houses will have to spend money in decorating their new homes, increasing domestic consumption directly.

With housing prices rising rapidly in the past couple of years, middle- and low-level income people couldn't afford to buy a house. Affordable houses will not only help them buy a house and improve their living conditions, but also leave them with money to spend on other things, which will indirectly boost domestic consumption.

Besides, providing lower-income residents with relatively better living conditions through government subsidy is a good way of redistributing social wealth and narrowing the widening income gap.

The central economic conference, which concluded more than a week ago, emphasized stable growth as the major macroeconomic policy for next year. It is obvious that the affordable housing program is of significance for social and economic stability both.

But the implementation of the program is not without its difficulties, for local governments can sell the huge pieces of land they acquire for the housing program to developers at much higher prices. That's why many local governments are not enthusiastic about supporting the affordable housing program in letter and spirit. In this sense, whether a local government does a good job of the affordable housing program will be a test of how well it is serving the people. No wonder, the central government has made it an important benchmark to assess the performance of local government leaders.

By prodding local governments to help solve the problem of lack of funds for affordable housing, the central government will also make local leaders understand that their job is not only to make money, but also to improve the life of the people.

Let's hope, the affordable housing program kills several birds with one stone.

CHINA FORUM | YI XIANRONG

# Outflow domestic, not foreign

## Government should make due preparations to deal with the betting by some hedge funds on the yuan's depreciation

**T**he recent decline of the yuan's exchange rate against the US dollar, together with the negative growth of China's funds outstanding for foreign exchange, has sparked market concerns over the "retreat" of international capital from the country.

However, further evidence is needed before jumping to the conclusion that "hot money" is accelerating its exit from China. Whether the decline of the country's funds outstanding for foreign exchange is caused by the exit of foreign capital or by the outflow of domestic capital is yet to be confirmed.

The depreciation of the yuan against the US dollar does not mean the fundamental reversal of its exchange rate or its full depreciation against the greenback following the appreciating tendency in the years since China launched reforms of the yuan's exchange rate. Due to the lack of its free conversion to other currencies, setting a reasonable equilibrium price for the yuan remains a particularly challenging task for the Chinese government,

especially under the US dollar-led international monetary system. But it will be determined to maintain the stability of the yuan's exchange rate to protect the country's national interests.

In the context of the gloomy international economic prospects, China's economic downturn and its increased risks in the time ahead, some international investors are pessimistic about China's prospects. But whether China's economic development will be according to these expectations remains to be seen. It is reminiscent of the prophecy of "China's economic collapse" following the eruption of the Asian financial crisis in 1997. However, there is no escaping the fact that China experienced remarkable economic prosperity after that crisis rather than a collapse.

In the face of the growing pessimism over China's economy and its currency among international investors and hedge funds, the Chinese government should make an in-depth study on the reasons behind this pessimism and the potential actions that might arise from it and then make corresponding adjustments to the country's economic

policies, so as to build up its economic resilience. The government should also make due preparations and take effective countermeasures to deal with the betting of some hedge funds on the yuan's depreciation. Only by so doing, can China maintain the stability of the yuan's exchange rate and bring about its long-anticipated exchange rate formation mechanism.

The negative growth of China's funds outstanding for foreign exchange in recent months has in part been caused by a decline in its trade surplus as the result of its decelerating export growth momentum and a decline in its inflowing foreign direct investment. But at a time when the global market remains extremely uncertain and risky and when China's economy is outperforming the rest of the world, any risks in China's market will be lower than those in the international market. Under these circumstances, international capital that has gained a footing in China is unlikely to choose to leave the country and put itself at greater risk elsewhere.

The recent decline of the yuan against the US dollar will facilitate



**Instead of focusing on the retreat of foreign capital the government should pay special attention to the possible accelerated outflow of homegrown funds, something that is expected to have larger repercussions for domestic monetary policy.**

China's efforts to reduce its controversial trade surplus and attain its policy target of striking a balance between exports and imports, while also helping to ease the pressures caused by its snowballing foreign reserves.

Nevertheless, the Chinese government should keep a close eye on the changed flows of international capital inside its territory and strengthen monitoring over "hot money". It should also remain highly vigilant of the potential effects on its monetary policies of the negative growth of the country's funds outstanding for foreign exchange. Despite a recent decline against the US dollar, the yuan is still within the range of appreciation and thus we should not over-interpret its downward tendency for the time being.

Instead of focusing on the retreat of foreign capital the government should pay special attention to the possible accelerated outflow of homegrown funds, something that is expected to have larger repercussions for domestic monetary policy.

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ED SANDER

# Exciting times for 'return on society'

**F**or small organizations in China that work for charity and social development, "profit" often seems to be a dirty word. This is understandable because unlike big corporations these non-governmental organizations (NGOs) pride themselves to be working for a greater good instead of making a few shareholders and top managers rich.

Small NGOs in China are normally run by a team of people who are highly passionate about the cause they work for, be it the environment, the physically challenged or the poor.

Unfortunately, the small scale of the NGOs and the educational and professional backgrounds of its staff members often come with a lack of business skills. As a result, many of these organizations struggle to find the right ways to raise funds, organize projects and make the most effective use of their resources. Decisions are more often made on "gut feeling" than on a proper business case with an analysis of the "return on investment".

Well, "return on investment" is another dirty phrase. Most certainly this would imply that these organizations are in it for the money. I beg to differ. NGOs are still trying to achieve a result (impact on social

development) with their investments (resources like funding by donors and the time and labor given by employees and volunteers). Like any regular business, the NGOs' goal should be to create the highest possible impact with the available resources.

In that case, maybe we should soften up the terminology a bit and call it "return on society" and discuss how NGOs bring tangible return to Chinese society.

There is another reason why professional business practice will become more important for NGOs in the country: accountability and transparency.

When attracting major sponsors, chances are high that they will want to see some proof that their donations will be put to good use, and their money will not be wasted or mismanaged.

Then there's the public. Society has been demanding more transparency from the organizations it give money (as a donor) or time (as a volunteer) to. The recent Guo Meimei scandal has dealt a hard blow to the charity sector, with many people no longer willing to donate. It cannot be denied that lack of openness and transparency only increases public distrust in NGOs. The ability to show that money is spent in a

proper way and actually creates an impact on society is crucial to the success and eventually the survival of NGOs.

This leads us to the question: How can NGOs incorporate aspects like accountability, return on society and transparency into their work? Honestly speaking, it is difficult. Small NGOs do not have the budget to attract highly skilled professionals. Media reports show that the average salary of an NGO employee in China is just about 2,000 yuan (\$313) a month. With such a low pay, it is difficult for NGOs to attract skilled personnel, let alone retain them. But fortunately there is another way.

In recent years, large corporations have been implementing "corporate social responsibility" (CSR) but have mostly used it as a marketing tool. When products and services are becoming more homogenous and differences in prices and quality are narrowing, showing that your company does something good for society becomes a reason for consumers to buy your products instead of your competitor's.

But CSR is developing beyond that. An increasing number of consumers have begun asking corporations to be socially responsible. Consumers no longer want companies to continue polluting the environment

and exploiting cheap labor in developing countries, and of late they have been criticizing many multinationals. So in the future, CSR would not be something that a company offers, but something its customers would demand. It will become crucial to the survival of businesses.

And therein lies the solution to the problem. One of the ways in which a corporation can provide "return on society" is by making its skilled staff members available for several hours or a certain number of days per month to work as volunteers with NGOs.

Research has shown that this often increases employees' satisfaction levels and loyalty, and at the same time it lends professional skills to NGOs in IT, accounting, marketing and business consultancy. Corporations can help make NGOs more successful and impacting.

What we need is a paradigm shift. NGOs in China must understand that they need to run like a business, while corporations need to seize the chance to build the capacity of these NGOs through corporate volunteering. These are exciting times for "return on society".

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