

# The best years

**Paul Yip and Lucia Liu say the speed and scale of population ageing will most affect countries with sizeable numbers of people in need. Hong Kong must act to reap the longevity dividend**

The 20th century was a time of population explosion. The number of people on this planet stood at 1.6 billion in 1900, rose to 3.3 billion by 1970 and reached more than 6 billion by 2000.

This century, by contrast, will be a time of population ageing. Last year, nearly 810 million people were aged 60 or over, accounting for 11.5 per cent of the global population. That number is expected to more than double, to 2 billion, or over a fifth of the global population, by 2050.

Population ageing is happening in all regions and in countries at various development levels. However, it is occurring fastest in developing countries, which are the least well prepared for the changes.

It took more than a century for France to double the number of its older adults, but it took only 20 years in mainland China and Hong Kong.

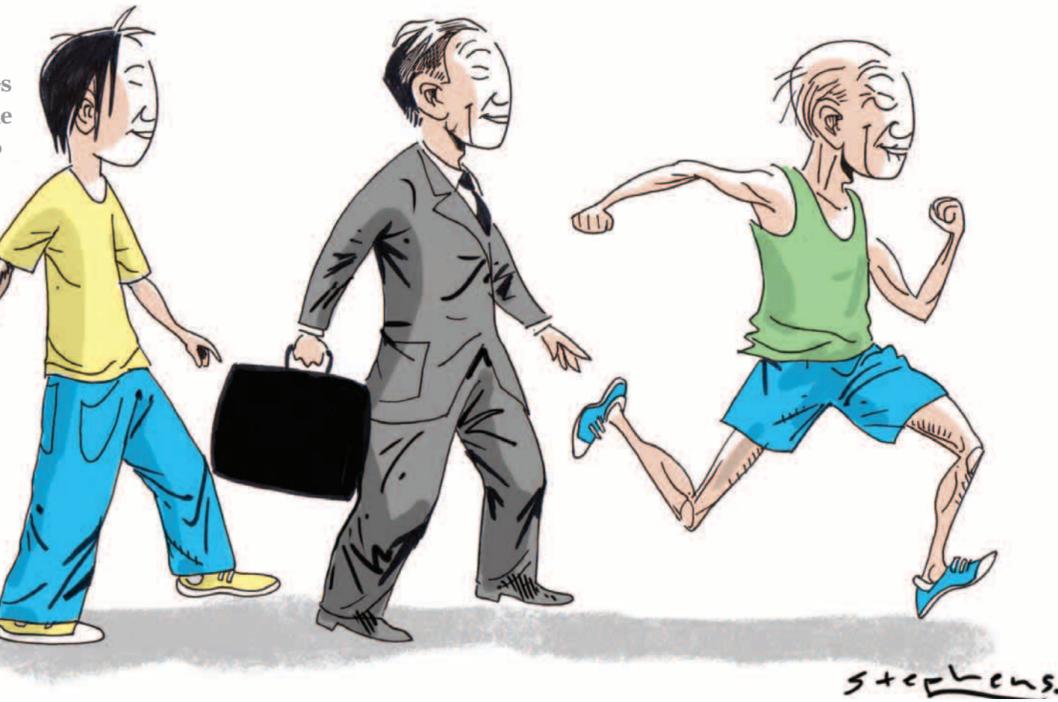
Take Hong Kong. Over the decade ending in 2011, the proportion of those aged 65 and over grew by only 2 percentage points, to 13 per cent, but this figure will shoot up to 19 per cent by 2021 and further – to 26 per cent – in 2031, according to the government's projection. Given the drastic speed and magnitude of population ageing, is Hong Kong ready for the change?

Hong Kong and the mainland face a different predicament from the developed countries with relatively affluent elderly populations; we are getting old before we get rich. There will be enormous difficulties in looking after those who are not well-prepared financially, or are not in good health.

During a workshop on ageing in Tokyo last month, we reviewed the practices and challenges facing other countries.

In 2011, 23 per cent of Japan's population was aged 65 or over, the highest percentage in the world. With very little immigration to rejuvenate the nation, Japan's total population has been falling since 2010.

The current total of 127 million is expected to drop to about 95 million by 2050, a 25 per cent reduction. With the rapid increase in the number of baby-boomer retirees, the strain on pension benefits and health and long-term care services has increased dramatically; rapid ageing may jeopardise the finances of the



whole social support system. The Japanese government is pushing companies to raise the retirement age from 60 to 65 to reduce the burden on the public pension system while encouraging the elderly to participate in the workforce.

Other policies aimed at securing the financial well-being of the system include increasing pension premiums and the government budget for pensions, raising



**We cannot solely rely on the government to look after elderly in need. The community must be mobilised**

the eligible age for receiving pension benefits and the introduction of a mechanism to automatically adjust benefits according to changing prices and life expectancy.

Health care patients are required to pay a certain percentage (from 10 to 30 per cent) of their medical costs despite a universal health care scheme, in an effort to reduce the unnecessary use of services.

The others participating in the work-

shop – China, Thailand, Indonesia, Malaysia and South Korea – are all populous countries undergoing rapid demographic changes.

Population ageing presents social, economic and cultural challenges to individuals, families, societies and the global community.

It is how we address the challenge and maximise the opportunities of an ageing population that will determine whether society reaps the benefits of the longevity dividend.

For Hong Kong, time is running short to prepare for these changes. In the SAR, about 14 per cent of the population is currently aged 65 or over. Our dependency ratio is at an all-time low; however, it will increase quickly due to the retirement of baby boomers from the 1950s.

We have no time to waste to enhance our capacity to address the challenges associated with this demographic shift. And we cannot solely rely on government efforts to look after elderly in need.

Instead, private enterprises, the community and family must be mobilised. For example, the "money follows the patient" approach to care support should be further developed, promoted, monitored and evaluated for its effectiveness to develop a more flexible and creative model for the elderly.

We should explore ways of making use

of resources in the local community and family members to meet some of the needs. Tax rebates for income-earning family members to look after the elderly is another way to deal with the increasing need.

Sixty years ago, life expectancy in China was only 45. Today, we regularly celebrate the birthdays of relatives and friends who have reached their 70s, 80s, 90s or even 100. Hong Kong should be proud of achieving one of highest life expectancies in the world – 86 for women and 81 for men – due in large part to improvements in health care, and clean water and nutrition.

Yet, many challenges remain. Keeping the population healthy can reduce health care costs, while maintaining a good quality of life.

Officials should be promoting the benefits of a healthy lifestyle from an early age; once we reach old age, change becomes that much harder.

To meet the challenges of ageing, Hong Kong needs to invest in its young people. Ensuring they remain healthy and productive throughout their lives will be a vital step in ensuring Hong Kong's population remains sustainable and dynamic.

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## Beijing blues

**Paul Letters says China is learning to strike a balance between its worry over a nuclear North Korea and displeasure at the US presence in Asia**

Paradoxically, in order for Beijing to achieve its current objectives in the Korean Peninsula of stability and, moreover, a downsizing of the United States' presence, it must concede to displays of American military might in the region.

It may be hard for pro-Western governments to comprehend, but China has long preferred Stalinism on its border to the likely alternative – an extension of US imperialism through a reunified Korea. China's preference for a bumper between itself and the US vassal state of South Korea echoes the Soviet Union's Eastern European buffer states, in place until the cold war was over. The Korean cold war is far from over.

Following North Korea's angry reaction to last month's extension of UN sanctions, the US proceeded with joint US-South Korean military exercises, replying to harsh words with hardware. Secretary of State John Kerry heads to South Korea on Friday, before visiting Beijing at the weekend, and we can expect him to add his voice to the argument that it is in Beijing's interests to align with pro-Western powers on this issue.

In the absence of US-backed security guarantees, North Korean leaders see their nuclear threat as their only deterrent to prevent attack from encircling powers, a view China understands. Although Pyongyang has become more of a liability in recent years, Beijing blames Washington for offering North Korea little choice regarding security, other than the nuclear route. While Beijing appeals for calm by all parties, it is aiming to get the US out of the peninsula.

America's increased military clout in the region is in part designed to spur China into action, such as more rigorous prevention of sanctioned goods departing over the border into North Korea.

But China faces a dilemma. It fears nuclearisation in the North but equally this could happen in the South, in response to Pyongyang's ongoing provocations. In effect, it already has: America's pledge to protect South Korea includes the possible use of nuclear weapons. The 1974 agreement prevents South Korea from developing nuclear weapons – but its government is pushing to renegotiate the terms, and its people stand boldly behind it.

Since February and North Korea's third nuclear test, Beijing has seen enough of Pyongyang's deaf ear, has backed international sanctions and is now reconsidering certain policy priorities: the objectives of denuclearisation, a stable status quo and the maintenance of a traditional friendship are no longer all achievable, if they ever were. And Washington is demonstrating to Beijing that if it cannot or will not play a key role in restraining Pyongyang, a strong American presence in China's backyard is inevitable.

China is showing its mettle – with words, at least. In clear criticism of China's long-standing ally, President Xi Jinping (习近平) said last weekend that no country in Asia "should be allowed to throw a region and even the whole world into chaos for selfish gain".

And sometimes a lack of words helps. The absence of protest over the current US deployment of warships and aircraft to the peninsula underlines Beijing's growing frustration with North Korea and increasing desire to meet the US halfway.

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## China must continue with its policy of opening up to carry out reforms

From the start, China's reform and opening up have been two halves of a whole. Yet, in recent years, signs of "closed-door reform" have emerged and in some cases have been put into practice. This is why Premier Li Keqiang's (李克强) renewed call to push for reform by opening up is notable.

During a trip to Jiangsu (江苏) and Shanghai late last month, Li said China's reform cannot be separated from its efforts to open up; in fact, opening up provides the push for reform. There's still room in today's China to speed up reform by opening up, he said, and we must "continue to open up so as to break through old ideas and outdated systems".

Li's view was shared by Vice-Premier Zhang Gaoli (张高丽), who told an audience at the China Development Forum last month that if China is to press on with reform, it must insist on opening up, which is needed now more than ever before.

China's development since 1978 makes this point clear. From the establishment of the special economic zones then to China's entry into the World Trade Organisation in 2001, liberalisation has played a major role in the country's progress towards becoming a free-market economy and a law-based society. Without opening up, there would have been no Chinese economic miracle to speak of.

Deng Xiaoping (邓小平) said China must open up not only towards the outside world, but also internally. How is the country faring today?

The pace of opening up to the outside world has clearly slowed since China became a

**Hu Shuli says the government is right to renew calls for liberalisation in trade, services and governance to build a fair and open market economy**



WTO member, especially after the global financial crisis. The forces of resistance include trade protectionists who want to restrict foreign business, as well as those who argue the complacent view that a fast-growing China needs no one else. These narrow, short-sighted views have become the biggest obstacle to opening up.

If China understood 30 years ago that it had no choice but to open up, today it must realise the door has to be opened wider.

The world has changed drastically in three decades. The growth spurt brought on by the first flush of globalisation has ended, and the global economy is now going through a correction period, with risks aplenty. Moreover, the impact of the financial crisis lingers, and the global economic order is in turmoil.

At home, China's old model of fast growth at all costs no longer works, hobbled by limited resources and environmental damage, a production system that lacks innovation and cannot compete internationally, and the problems that have emerged as China seeks to transform its economic model – including stalling reforms in key programmes and pilot projects.

The more complex environment has made opening up more difficult, but also more necessary. Premier Li has warned of the difficulty of reforms targeted at China's

fundamental problems, given entrenched vested interests. If China stops opening up, its reform efforts would remain stuck. The government's call to push for reform through opening up is a good decision.

How should China continue to liberalise? In two areas, for a start: the services industry, and the capacity for global economic governance. They can be the litmus tests for the effective implementation of the next phase of the opening-up policy.

Today, China is the world's biggest exporter and its second-biggest importer, and its value-added service industry is worth close to US\$4 trillion. Yet trade in services is only US\$470 billion. The lack of progress in opening up the services industry has impeded China's plan to raise domestic demand. Expanding the financial securities industry and domestic trade would help accelerate economic restructuring.

And as China becomes stronger, it should assume more responsibilities and obligations on the world stage, and actively participate in the making of international rules. These efforts will help reduce volatility in the global economy, and create a healthier, more stable external environment for China's own development, not least by easing the path of mainland firms seeking international expansion.

To open up, China must push on with market reform.

Foreign companies have in recent years cast doubt on China's investment environment. Of course, this is due in part to changes in previous policies that favoured foreign companies over local ones. But we should ask why China has not been able to provide a fair market environment for multinationals.

This problem goes beyond China's promise to meet WTO obligations. It concerns questions over the development of small and medium-sized enterprises; the efforts to reorganise government and redefine its scope; the role and reach of state-owned enterprises; the investment and financing system for foreign enterprises; the internationalisation of the renminbi; the liberalisation of interest rates and reforms in key areas. In short, this concerns all aspects of the market economy.

If the government succeeds in tackling these many problems through the creation of a fair and transparent market, credit will have to be given to the policy of opening up.

When China undertook reforms over 30 years ago, there was consensus in society that, whatever the obstacles, China must open itself up. Today amid calls to deepen reform, the central government is calling for reform through liberalisation. The road ahead is clear. Efforts must be directed at where reform is stalled most.

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## Lower costs, bigger market await the renminbi adopters

**Albert Chan looks at how HK businesses can open up new opportunities**

The renminbi is reordering the global trade environment, presenting new opportunities for those businesses bold enough to grasp them.

Hong Kong's trade with the mainland has grown exponentially over the past few years, boosted by the twin locomotives of extraordinary mainland growth and increasingly transnational industrial assembly lines. Today, Hong Kong's trade flows are dominated by its bilateral relationship with the mainland, which took over 50 per cent of Hong Kong's total exports and 47 per cent of its total imports for last year. The latest HSBC Commercial Banking Trade Forecast suggested that mainland China will remain Hong Kong's dominant trading partner until 2030.

Some 10.5 per cent of China's total overseas trade – equivalent to over US\$400 billion – was estimated to have been settled in renminbi last year. That portion is expected to rise to 30 per cent by 2015, and 50 per cent when it comes to trade with emerging markets.

Under the most common current arrangement, Chinese companies invoice in dollars and in doing so absorb a significant part of the currency risk involved in any given transaction: if the renminbi appreciates between the time the deal is struck and payment is delivered, they can lose out.

That looks like a good deal for customers, but Chinese corporates charge heavily for the service; an estimated 3 per cent

to their dollar invoices to cover their currency risk.

For years, the perception that the renminbi was undervalued against the dollar – and would therefore only appreciate – made it relatively expensive to hedge. But more recently the markets are starting to accept that the currency is close to reaching its long-term equilibrium value, making forward hedging cheaper.

The renminbi's life as an international currency only began in 2009, and its meteoric



**For SMEs, a switch to the renminbi represents more than just savings**

rise has been actively assisted by the Chinese government, which has been steadily stripping away the restrictions on its use.

The restrictions that remain are centred around investment flows into and out of the capital account rather than trade. The only constraints to using the renminbi as a trade currency are of a more logistical nature: international markets are still in the process of developing and spreading the renminbi-denominated hedging and credit products that help smooth international trade financing. Hong Kong has played a

leading role in the global expansion of the renminbi, and it is still the largest and best-developed market. But China is in the process of widening the network of new offshore clearing centres.

And just as its geographic footprint is growing, new, more flexible products are being developed.

Even while the network is growing, the reach of Hong Kong's international banks puts the renminbi within reach of even the smallest manufacturer or trading house. For smaller and medium-sized enterprises, a switch to the renminbi represents more than just savings. It opens up a new layer of smaller Chinese suppliers who may prefer the ease of using their own currency or be reluctant to take on the dollar exposure.

Given the economic challenges of recent years, Hong Kong has done remarkably well, but businesses still need to recognise and exploit the opportunities presented by the growing international presence of the renminbi.

For Hong Kong business, it represents a unique chance to cut costs, reduce financial friction in the supply chain, and open up new markets.

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