

## THE BUSINESS TIMES

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## More women directors needed

ONE of the most common criticisms of senior management in listed companies is that it is a closed "old boy's club" where owners or controlling shareholders appoint compliant cronies as directors, resulting in a heavy concentration of directorships in the hands of a few.

When defending their actions, these companies often claim that the talent pool from which suitably competent directors can be drawn is small. If so, then why not enlarge it? One progressive method, which is being vigorously pursued in many Western countries, is to force open the doors to women. In this regard, the Australian experience holds some valuable lessons.

The Australian Institute of Company Directors and the Business Council of Australia have, in the past year, been actively helping women gain board seats through mentoring programmes. Just as effective has been the inclusion of gender requirements in the Australian Stock Exchange's corporate governance requirements starting in July this year. In a nutshell, ASX-listed companies have to establish a diversity policy that includes measur-

able objectives relating to gender. The policy must be disclosed to the market in full or in summary and companies have to disclose in their annual reports their achievements against the gender objectives. They also have to disclose in their annual reports the proportion of women employees in the whole organisation, in senior management and on the board.

These measures have had their intended impact. So far, 40 women directors have been appointed to ASX-listed companies in 2010 compared to 10 for the whole of 2009. This represents about one-third of all directors appointed in 2010 compared to 5 per cent and 8 per cent in 2009 and 2008 respectively.

Of course, increasing the number of female appointments just to satisfy a politically correct objective would be useless if the women involved were unable to perform. But there is evidence that women in senior management do make a positive difference – in Australia, the Hay Group's latest *Best Companies for Leadership* re-

port shows that two-thirds of companies rated in the top 20 have a high proportion of women in senior leadership. According to a report in the Oct 6 *Australian Financial Review*, these companies produced eight times better shareholder returns than their peers over a five-year period.

Australia's approach has been to try and encourage gender diversity through moral suasion and a gentle tightening of disclosure requirements. At the other end of the spectrum is Norway, which in 2003 took the unprecedented and controversial step of passing as law (in its Companies Act) the requirement that no one gender can comprise less than 40 per cent of the board.

Whatever the approach, the ultimate goal should be to force companies to properly utilise all management resources at their disposal and to expand the talent pool for directors. Perhaps it is time for the same thing to be introduced here, which would then go a long way towards dismantling the notion that directors are all part of an "old boy's network".

## Another systemic crisis 'will be more dangerous'

Bond bubble, trade war are risks to recovering global economy, says contrarian economist



**VIKRAM KHANNA**  
Associate Editor

THE global economy will avoid a double-dip recession, but in the unlikely event that there is another systemic economic shock, it will be more dangerous than the last, according to contrarian economist Thierry de Apoteker. He identified the US bond bubble and a possible trade war between the United States and China are the two most likely causes of such a shock.

Fiftythree-year-old Mr Apoteker runs the boutique economic consulting firm TAC and specialises in the use of quantitative modelling to study financial crises – many of which he has predicted, including the 1997 Asian crisis. In fact, over the period 1980-2002 he predicted crises in 50 emerging-market economies with 90 per cent accuracy.

TAC, which fiercely guards its independence, has no relationship with any bank or public institution. It also sells nothing other than advisory and research services.

The company operates out of a farmhouse in Brittany, two hours from Paris. The choice of location is deliberate.

"If you want to be independent, you should locate yourself far away from big money centres," Mr Apoteker said in an earlier interview with BT in 2008. "If we were in Paris, we would be having lunches with bankers and financiers there, and would probably end up thinking like them."

But for much of the time, Mr Apoteker is on the road, criss-crossing continents, making presentations and meeting clients; TAC boasts a client list that includes more than 30 major banks and corporations around the world as well as official institutions such as the European Commission, the Asian Development Bank and the United Nations Conference on Trade and Development (Unctad).

Last month, he was meeting TAC clients in Singapore, where we caught up with him for an evening drink at the Pan Pacific Hotel.

Despite an apparently depressing global economic scenario – slow growth in the US, fiscal austerity in Europe, continuing deflation in Japan and threats of a trade war between the US and China – Mr Apoteker is not as gloomy about the future as most of his economist peers.

He said that the US economic slowdown in the second quarter (1.6 per cent annualised growth) does not reflect a decline in final domestic demand and shows some rebound in private investment. Moreover, although the US unemployment rate is stubbornly high at around 9.6 per cent, the fact that job creation is still positive (implying increasing aggregate demand), a double-dip in household consumption – and thus a recession – does not look likely.

The European Union (EU) recorded strong growth of 4 per cent (annualised quarter on quarter) in the second quarter, driven partly by investment and exports. "Sixty per cent of EU exports are within the EU, but 40 per cent are not," he pointed out. "So, the move of the euro/dollar exchange rate from 1.6 to 1.3 has been a godsend for many European companies."

However, he added that in the light of the fiscal tightening in the eurozone, its rapid growth rate is unlikely to be sustained. He forecasts the eurozone's economic growth at 1.5 per cent in 2010, rising slightly to 1.7 per cent in 2011. US growth will be 2.5-3 per cent this year, moderating to 2-2.5 per cent in 2011. Thus, over the next 15 months, there will be some convergence of growth rates in the eurozone and the US, he said.



**Mr Apoteker:** Says China is unlikely to make a major move on its currency. It must not make the renminbi a one-way bet, he adds, otherwise it would only invite more capital inflows, which would compound its overheating problem

Mr Apoteker said that while there is a low probability of a systemic economic shock, it cannot be ruled out. And if it were to happen, it would be more dangerous than the last shock which culminated in the collapse of the investment bank Lehman Brothers in late 2008. "There is not enough money now to mount another round of bank rescues," he said.

He identified two possible triggers for a systemic crisis. The first is the bubble in the US bond market.

"The yield for 10-year US Treasuries should be around 4.5 per cent, not below 3 per cent as at present," he said. "But the question is whether the bond bubble will burst or will deflate slowly – which can happen if investors shift gradually to private sector investments."

If the bubble bursts, however, banks will suffer huge market losses on their bond holdings. Many banks are highly

exposed to government bonds. But he added there are signs that the US Federal Reserve is readying itself to prop up the bond market. "The Fed could be preparing to be a buyer of last resort for bonds," he said.

The second possible trigger for a systemic crisis, according to Mr Apoteker, is a trade war between the US and China, possibly sparked off by disagreements on the appropriate level of China's currency, the renminbi, which the US alleges is too low. On Sept 29, the US House of Representatives raised the ante by passing a bill to pave the way for the US Commerce Department to slap import duties on countries with "fundamentally undervalued" currencies – which, economists agree, is clearly aimed at China.

Mr Apoteker said that China is unlikely to make a major move on its currency. It must not make the renminbi a one-way bet, he said – otherwise it would only invite

more capital inflows, which would compound its overheating problem. It is thus necessary for China to encourage a degree of uncertainty as to the direction of the renminbi's movement.

But he added that China has started to encourage capital outflows, which, other things being equal, would depress the renminbi. In fact, this year we might well see outward investment from China exceeding inflows for the first time.

So what opportunities does the global scenario present for investors? Mr Apoteker said that given the weakness in the US and Europe, emerging markets are a better bet than developed markets – particularly emerging-market MNCs.

Also, equities look better than bonds, he said. Emerging-market currencies also look promising – as do commodities, because inflation is likely to creep up in the years ahead.

## THE BOTTOM LINE

## Beijing shoots itself in condemning Nobel award

IN China's upside down world where black is white, the great honour of the Nobel Peace Prize being given to Liu Xiaobo, a writer, intellectual and human rights activist, has been denounced by the government as a "desecration" of the award because it was given to "a criminal who broke China's laws".

That is more a condemnation of Chinese laws than of the Norwegian Nobel Committee, which said in its announcement: "China is in breach of several international agreements to which it is a signatory, as well as of its own provisions concerning political rights."

The committee honoured Liu for his "long and non-violent struggle for fundamental human rights in China".

But, assuming the mantle of defender of Alfred Nobel, creator of the prize, a Chinese government spokesman said that the proper recipient should be someone who has worked for "fraternity between nations, the abolition or reduction of standing armies and for the holding and promotion of peace congresses".

The Nobel committee countered by saying that it "has long believed that there is a close connection between human rights and peace" and that "such rights are a prerequisite for the 'fraternity between nations' of which Alfred Nobel wrote in his will."

China's reaction has been to censor news of the award, round up supporters of Liu and put his wife under house arrest. By these actions, the government has condemned itself and justified the decision to honour Liu as "the foremost symbol of this wide-ranging struggle for human rights".

The Nobel peace prize is a major morale boost for dissidents in China, who have suffered from ever-increasing repression. It requires incredible courage to be a dissident in China, struggling for freedom but the struggle continues despite all odds.

This indomitable spirit was evident again a few days ago when a human rights lawyer, Yang Jinzhu, called on Wang Shengjun, the president of the Supreme People's Court, to resign after the court authorised the execution of Fan Qihang in Chongqing despite evidence that he had been tortured into confessing to murder and other crimes.

It is unclear what Mr Yang's fate will be but the lawyer has made it clear that he will persevere in his campaign against the country's top judge until either his own death or imprisonment or the judge is removed from office, whichever comes first.

One of the few newspaper articles about the award for Liu Xiaobo is an editorial in *Global Times* headlined "2010 Nobel Peace Prize a disgrace", which accuses the Nobel committee of "trying to impose western values on China".

Writers of such articles seem to have forgotten that Karl Marx, who was turned into a god by the Chinese Communist Party, was a westerner and socialism itself is a western idea.

Moreover, recipients of the Nobel peace prize include those who had worked for human rights in other countries, including Nelson Mandela in South Africa, Kim Dae-jung in South Korea and Martin Luther King in the United States.

None of those countries accused the committee of trying to impose western values on them.

The values espoused by Liu were reflected in a statement he made in court on Dec 23, two days before he was sentenced.

In that statement, he said that he had no enemies and no hatred – not for the police who monitored and questioned him, not for the prosecutors who sought to imprison him and not for the judges who sentenced him.

"For hatred," he said, "is corrosive of a person's wisdom and conscience; the mentality of enmity can poison a nation's spirit, instigate brutal life and death struggles, destroy a society's tolerance and humanity, and block a nation's progress to freedom and democracy."

Instead, he said, he hoped to counter the hostility of the government and "defuse hate with love". "There is no force that can put an end to the human quest for freedom."

Strangely enough, those words found an echo recently when Premier Wen Jiabao was interviewed on CNN by Fareed Zakaria.

Speaking of his determination to bring about political reform in China, Mr Wen said: "The wish and will of the people are not stoppable. Those who go along with the trend will thrive and those who go against the trend will fail."

With such an ally, Liu Xiaobo may yet see his aspirations realised one day. But that day isn't here yet. Even Premier Wen's words have been censored in China.

The writer is a Hong Kong-based journalist and commentator



**FRANK CHING**