

## LETTER FROM THE PRESIDENT

Dear China Council members:

It is undoubtedly an exciting time to be involved in China today. China continues to dominate the frontline news as it evolves on the geopolitical and economic fronts. This year, China concluded the once-in-a-decade transfer of power to a new generation of leaders. The world watches as it shapes and transforms its position in the ever-changing and intensifying global landscape.



China is making history like a bullet train barreling down a seemingly endless track. There is no better time to be on board than now. There is so much to learn; there is so much to experience; there is so much history to understand; and we have so much we need to do for our members and the community. The future for the Northwest China Council is bright.

I have lived in Oregon essentially my entire life and have seen a tremendous level of positive interest in China. We want to believe that we are helping in some small way to bring that positive change to the communities around us. It is a pleasure to be a part of an organization that helps promote greater understanding of the relationship between China and the U.S.

Thus, it is a privilege and honor to be selected as the new president to lead the NW China Council forward as we embark on a new journey. My vision and objective moving forward is to expand and focus our resources in our programs and events in hopes of providing even more quality and significance. Furthermore, our mission is to be a key resource where we can help connect and be a gateway into China's culture, business, and contemporary affairs. We want to bridge the gap between business and culture and more importantly, educate you on issues that are current and historical that may be impactful to your business and our communities in the future.

I am fortunate in that the depth and breadth of the Northwest China Council Board members are extraordinary professionals which include our pro bono legal counsel K&L Gates. Without their hard work and

support our mission and vision would be very difficult to accomplish.

Our members are also extremely important to us and we greatly appreciate your support and thank you for your membership in the Northwest China Council. It is you that drives us to keep moving forward. We want to continue to expand our membership base so we can have the resources to build better programs in the future. Let's spread the word.

We are diligently working on new programs and events, and are looking forward to the calendar of events for 2014. There will be some interesting, fun, and "fluid" programs in the coming New Year. We hope that you can join us and live the history and experience the excitement of the Northwest China Council.

*- Victor W. Lam, President*

## BUSINESS PROGRAMS

The business programs committee has had an active schedule of fall events. On August 29<sup>th</sup>, we had a very successful mixer at the offices of Miller Nash. A diverse group of more than 40 participants met and exchanged ideas and experiences relative to business in China. The committee will continue to have mixer events, including with interactive panel discussions, as part of our ongoing programs.

On September 18<sup>th</sup>, Joe Soroka from KeyBank was our guest speaker at our most recent business luncheon event, featuring the internationalization of China's currency. This was an excellent and interactive session on this very important topic. Please see Paul Millius' in-depth review on the next page of this newsletter.

On November 13<sup>th</sup>, a luncheon event will take place on Portland Development Commission's activities on exports and foreign investment topics. Please see our website for information about the venue and registration. In January, the business programs committee will have a luncheon event on the Foreign Corrupt Practices Act. More details on this event and venue and date will be forthcoming.

All readers are encouraged to participate in the events. We look forward to seeing you and thank you for your support of the Northwest China Council.

*- Jeff Smith, Chair, Business Programs*

## INTERNATIONALIZING THE RENMINBI: MAKING CHINA'S CURRENCY CONVERTIBLE

On Wednesday, September 18, about 30 bankers, lawyers, and China business-philosophers attended a seminar and luncheon at Miller Nash, LLP law firm, for which the presenter was Joseph Soroka, VP, International Foreign Exchange Banking, from the Enterprise Commercial Payments Group at KeyBank in Bellevue, Washington. A delicious and varied buffet lunch was provided by Dragonwell Bistro Restaurant.



Joe Soroka and Jeff Smith

The topic of Mr. Soroka's presentation was "The Internationalization of China's Currency".

In 2010, China became the world's second largest economy, now ahead of Japan. Gross Domestic Product has risen to USD 5.8 trillion, which is 9.5% of total world GDP. China is the world's largest exporter.

However, the national currency, RenMinBi, is underused in China's international transactions. In 2011, 98% of the in/out payments were done in currencies other than RMB. Nearly 80% were done in US Dollars. In contrast, in the USA, 90% of such payments were done in USD; in Japan, 70% are in Japanese Yen; in Russia, 46% in Rubles.

Things are changing. By 2013, China's currency, in terms of its ranking by dollar value of average daily turnover, has risen dramatically since 2001 and is now ranked ninth of the ten leading currencies. It has become one of the world's most traded currencies.

Mr. Soroka recapped some monetary history. The RMB was pegged to the US Dollar at 8.726 for more than a decade.

- In July of 2005, the People's Bank of China allowed the RMB to move within a 0.3% range against the Dollar;
- In 2007 the first RMB-denominated offshore "Dim Sum Bonds", were issued in Hong Kong;
- In 2008, the PBOC signed bilateral swap agreements (BSAs) with foreign central banks to

promote the RMB in global trade & investment. These allowed the two countries to set a fixed-rate swap rate for a limited time;

- In 2009, a pilot program for RMB settlement of cross-border trade was inaugurated for transactions by a small number of Mainland Designated Enterprises (MDEs) with Hong Kong, Macau, and the ASEAN nations;
- In 2010, the pilot program was extended to all countries, expanding to 67,000 MDEs in 20 provinces;
- In 2010 McDonald's became the first non-bank entity to issue Dim Sum bonds in Hong Kong;
- In 2011 the first Hong Kong RMB IPO was issued, and the Trade Settlement Program was extended to all Chinese provinces;
- In 2012, the Trade Settlement Program was extended to all Chinese companies that held import/export licenses, and the MDE designation was dropped.

China now differentiates two types of RMB: CNY for onshore transactions, which floats in a 1% range against a basket of foreign currencies; and CNH, an offshore currency traded mainly in Hong Kong. CNH enters the market via PBOC's Bilateral Swap Agreements, and moves freely with the market. The supply is controlled by the People's Bank of China (PBOC). The CNH value has tracked closely with the CNY, both currently at about 6.12 to the Dollar. CNH is market-driven and transparent, CNY is not.

Mr. Soroka then addressed why foreign entities might want to adopt the RMB as a trading currency. In several ways they can minimize foreign exchange risk and reduce transaction costs:

- For US importers, paying and hedging in RMB provides protection against price increases from an appreciating RMB;
- For US exporters, invoicing in RMB can help broaden the range of customers able to buy from them;
- For US companies that buy and sell in China, using RMB provides a natural hedge against changes in exchange rates;
- The Offshore CNH market allows RMB exposures to be hedged with traditional FX forward contracts and options;

## INTERNATIONALIZING THE RENMINBI (CONTINUED)

- From an investor prospect, there may be potential gains from RMB appreciation and additional asset diversification.



Merrill Keane, Shiao Yen Chin-Dennis, Raymond Cheung, Joe Soroka, Victor Lam

He went on to say that the Chinese government has allowed the RMB to appreciate at a slow and managed rate, going from nearly nine to the Dollar in 2005, to 6.1 in third quarter 2013, with a plateau from mid-2008 to mid-2010 at 6.8 (due to global financial uncertainty).

Mr. Soroka projected possible changes as the onshore RMB becomes a free-floating, fully convertible currency. Beijing will need to relax capital account and domestic financial controls. What impact will it have on the State-owned banking system?

What impact will it have on capital flows in or out if interest rates are higher in China? If the currency is freely convertible, households can send money offshore to protect their assets from capricious government policies.

What impact will it have on the 'privileged lending' practices extended to State-Owned Enterprises, and on the economy and political regime in general?

He went on to point out that a freely convertible RMB would be unique in that all others are the currencies of democracies. And what if the Chinese economy slows? Would there be large outflows of capital? He opined that the biggest beneficiary of convertibility might be the PBOC. It would no longer need to control the currency as closely as it now does.

Mr. Soroka concluded with a few remarks regarding the Dodd-Frank Banking Reform and Consumer Protection Act. Though well-intentioned, new regulations will make it difficult for small businesses to manage foreign exchange risk. Under the rules set by the Commodity Futures Trading Commission, any counterparty to a FX hedge must have at least \$10 million in total assets or \$1 million in net worth. Unfortunately, this will exclude many small businesses from being able to manage their cross-border business risk.

He then answered questions from the audience. They touched on such topics as how the Chinese government controls exchange rates, to advantages and disadvantages to importing and exporting, to broader investment opportunities, to external government debt as a factor in allowing currency to float. Mr. Soroka pointed out that bonds can be sold in RMB, and have been.

In response to a question about the timeline for RMB convertibility, Mr. Soroka said China's monetary authorities hope to have CNY fully convertible by the end of 2015. A question about the advantages of CNY and CNH was raised by a company importing from China and paying in USD. Soroka said using CNH would be advantageous. Any offshore bank can handle it. Only onshore banks can handle CNY transactions.



Paul Millius, Joe Soroka, Victor Lam

There was a question about bilateral swaps determining FX rates. If RMB continues to increase against the Dollar, you can hedge with a forward contract. He pointed out that many companies with business in China have both CNY and CNH accounts.

He said that American exporters can broaden their markets in China by invoicing in CNY. If interested in this, confer with your bank and decide whether to hedge or not to hedge.

A question was raised about the impact of the newly-announced Shanghai Free Trade Zone on the internationalization of the RMB. It is difficult to tell. Both on and offshore companies will be able to operate there.

The last question was about the tradability of the McDonalds Dim Sum Bonds. He replied that the CNH bonds were traded in Hong Kong, but not in Singapore or London.

Mr. Soroka's presentation was interesting and well-received, as witnessed by attendees lined up to confer with him after the final Q&A question.

- Paul Millius

## 2013 ANNUAL MEETING & DINNER

On Wednesday, September 25, 2013, a beautiful Portland fall day, about 50 people attended the 2013 Annual Meeting at Wong's King Restaurant in Portland. Board President David W. Kohl called the meeting to order and gave a review of the past year. He introduced past Treasurer Victor Lam, who reviewed the 2012-2013



President Victor Lam, Immediate Past President David W. Kohl

fiscal year financial reports. Director and Nominating Committee Chair Paul Millius asked members to fill in ballots to elect new and returning directors. The floor was turned over to Victor Lam, incoming President, who introduced the officers for the 2013-2014 year: President-elect Michael Bloom, Secretary Ann Wetherell, and



Donald Kjar, John Wong, Dr. Hong Jin, Prof Huike Wen, Simon Tian

Treasurer Ming Brink. Victor introduced all directors and the legal counsel in attendance, and noted they comprised a working board, crucial for operation of the China Council. Victor then articulated programs and goals for the upcoming year. Ballots were tallied, and in addition to the re-election of eight directors for another two-year term, the following new directors were elected: Lisa Irving, George Lien, Amy Richter, and Sam Ruda. The business meeting was then adjourned, and dinner started.



Ming Brink, Dr. Hong Jin, Peter Martin



Katherine Morrow, Koichi Kim, Shiao Yen Chin-Dennis

Wong's King served a delicious ten-course Chinese banquet dinner, and attendees had lively conversations at their tables. Seen among the crowd were friends and partners from PSU Institute for Asian Studies, Oregon College of Oriental Medicine, PSU Master in International Management, and Oregon Department of Agriculture. Board Director Lisa Irving introduced Willamette University Professor Huike Wen who gave a delightful talk on the place of television in 1980's China (please see following page). *-John M. Wong*



### “TV in 1980’s China” by Prof. Huike Wen

Professor Huike Wen shared the story of television as it emerged in 1980s China. Television was a western technology that became an icon for China’s path to modernization, as well as a status symbol of the new economy.

Wen examined the placement of televisions inside the home, the programming that families chose to watch, but



also what the Chinese government, under President Deng Xiaoping, hoped to communicate to the public through advertising and public broadcasts. “I grew up watching T.V. in the 1980s,” she acknowledged. “Television was very important to me. There was a lot of new programming, and I watched everything. I was very curious about the world captured by television.” Like Americans, many young Chinese of the 1980s spent time alone watching T.V. while their parents worked. In China as in the U.S., that opportunity translated into new ideas about the world they hoped to inhabit.

Wen noted that national culture was represented by the campaigns that were dominant in the 1980s: “be filial”; “be a good worker”; “support your country.” By contrast, many popular programs emphasized social status and wealth. Becoming modernized and becoming rich were celebrated both in magazines, and popular T.V. shows. Coming directly on the heels of the Great Proletarian Cultural Revolution (1966-1976), this advocacy for modernization, filtered through television, actually served as a source of pressure on individuals and families to improve their economic standing, even though there were real, unavoidable barriers to individual economic prosperity.

Escape and fantasy were common in many imported programs, some of which gave ordinary Chinese their first glimpse of ‘decadent’ Americans. Programs like *Hunter*, which were not popular in the U.S. were very successful

in China, and were viewed as having meaningful insights about American cultural values of ‘manliness’, independence, and self-sufficiency. Both imported programs, as well as domestic series that emphasized traditional values served to foster an imaginary future. In that vision of a “pure” life, traditional values like national glory and submissive gender roles for women were uneasily blended with economic prosperity and urbanization.

By the late 1980s, series like *River Elegy* (He Shang) dared to critique traditional Chinese culture, while exploring long held values. Students and intellectuals used the series to air some of their own more persistent grievances in the months before Tiananmen, 1989. *River Elegy* was later banned in China, but its impact on Chinese intellectuals remained meaningful, even while the next generation turned its attention to economic prosperity rather than political life.

More recently, contemporary programs like *Dwelling Narrowness* (*Wo Ju*) have explored sexuality, affairs, mistresses, and corruption. This 2009 T.V. drama was an



Prof. Huike Wen, Lisa Irving

example, Professor Wen noted, of a shift to more mainstream programming focused on current struggles within Chinese society: housing prices and shortages, jobs, corruption, sexual mores, and the struggle between tradition and modernity. Voted ‘favorite of the year’ in 2009, *Dwelling Narrowness* was a story about three generations of China’s urban middle classes, but it grappled with premarital sex, mistresses, and economic disparities that belie the success of modernization. By weaving those issues together very skillfully with portrayals of middle class comfort, the program pinpointed tensions within post-Socialist China.

- Lisa Irving

## REVENGE OF GEOGRAPHY BOOK REVIEW

*Revenge of Geography: What the Map Tells Us About Coming Conflicts and the Battle Against Fate*, by Robert D. Kaplan (Random House, Sep. 11, 2012. 432 pages)

Geography was to have been supplanted by the “flat earth” of globalization and instant communication. But as we have relearned from recent events in Iraq, Afghanistan, the South China Sea and all over the world, that although modern transportation may have made the world smaller, it has not totally negated all the influences of geography.

Robert D. Kaplan is chief geopolitical analyst for Stratfor, a private global intelligence firm, and the author of 14 books on foreign affairs and travel. In 2011 and 2012, Foreign Policy Magazine named Kaplan among the world’s “Top 100 Global Thinkers.”

Reviewing titles of the author’s previous books, this current book *The Revenge of Geography* may be a compendium of many of his ideas from his travels and past writings. In the first half of the book, he covers in detail some of the major western thinkers on geopolitics – how geography had influenced the rise and fall of empires, how geography guided the actions of nations, and how geography is inherently tied to politics and economics. In the second half, he applies these ideas to many major areas of the world from Europe, Russia, the Middle East, and India, to China and ending with a chapter devoted to the United States.

Quoting past geopolitical thinkers such as MacKinder, Kaplan believes control of the “heartland” (central portions) of the Eurasian continent is necessary for a nation to be the dominant power in the world. Even with its weakened economy and decreasing population, Russia can still move troops quickly to both sides of the Eurasian continent and thus will always be an important land power. On the other hand, Russia has always been limited in its access to the ocean. Without access to the seas and ocean trade routes, it has been less prosperous and economically-secure than other nations.

Kaplan considers China to be in a most advantageous geographical location. Although there have been many significant invasions from the north in the past, its current land borders are secure, and China has been expanding its territorial reach in the last few decades through the spread of its Han population to the north and west and taking advantage of the sparseness of the native population and uprisings in those areas. China really has not run into major opposition but Kaplan thinks it will in the not-so-far future.

Unlike Russia, China has thousands of miles of coastline, which is advantageous in developing its maritime power

and trade access, even though it had made little use of this resource in the past. With the foreign invasions by European nations and Japan that China suffered during the end of the Qing Dynasty and the beginning of the last century, this national humiliation in the hands of what China considers as less civilized nations is still deep in its national psyche. The territorial disputes in the South China Sea, its declaration that Taiwan is always part of China, and its hold on Tibet and surrounding areas are all driven by economic, natural resource, and territorial claims as well as deep-seated cultural nationalism.

The last chapter is devoted to the U.S. and its geographical underpinnings. Kaplan describes how geographical factors may have predestined the U.S.'s and China's prominent places in the world; and why the U.S. needs to pay attention to Mexico and Central America, and not just the Middle East and China. The U.S. has been most fortunate for the last century with abundant open land and resources, and protected from “sea to shining sea” from foreign invasion. The U.S. was also never devastated by any significant foreign intrusion on its soil and had been able to grow to be the dominant power in the world. However, with the population and economies in Asia and the rest of the world growing, it is necessary for the U.S. to avoid over-extension of its economical output and resources, as already evidenced by small-scale wars in Iraq and Afghanistan. The two oceans in this case just make the logistical cost so much higher for the U.S. than Eurasian countries.

Kaplan suggests that in the future, the destiny of the U.S. will be more closely tied with the north-south axis, from Canada to Mexico and beyond, and less to nations across the two oceans. The U.S. has been blessed so far that the Caribbean (the American Mediterranean) has been mostly trouble-free for the U.S. But, with the increasing power of narcotic warlords in Mexico and less friendly nations in Central America, this situation is changing. Kaplan warns that, historically, when more developed nations were situated next to less developed nations, invariably the less developed nations adversely affect the future of the more developed nations.

Kaplan asks how America can prepare itself for a prolonged and graceful exit as the world’s dominant power. “We must be a balancing power in Eurasia and a unifying power in North America— doing both will be easier than doing just one.”

For information on the Northwest China Council book club, please contact [johnw@nwchina.org](mailto:johnw@nwchina.org).

*Gabe Zee and John M. Wong*  
NWCC Book Club

**CALENDAR OF EVENTS**

**CHINA Town Hall**

**Featuring Madeleine Albright and Elizabeth Wishnick**

**Monday, Oct. 28, 2013, 4:00 - 6:00pm**

Smith Memorial Union, Room 296/8

Free and open to the public. But, please register online for headcount.

**Movie Night: *Suzhou River***

**Tuesday, November 12, 2013, 6:00 - 9:00pm**

Red Robe Tea House, 310 NW Davis St, Portland, OR 97209

Free (food and drink available for purchase). Register online, as space is limited.

**China Business Luncheon**

**Speaker: Mitsu Yamazaki and Peter Englander, Portland Development Commission**

**Wednesday, November 13, 2013, 12:00 - 1:30pm**

Miller Nash, LLP

US Bancorp Tower, 34th Floor

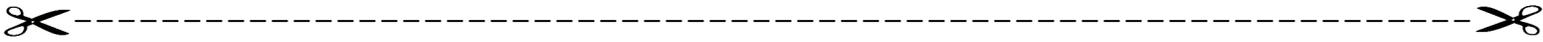
Portland, OR 97204

**“Year of the Horse” Chinese New Year Gala fundraiser**

**Saturday, February 22, 2014, 5:00 - 9:00pm {Save the Date}**

Wong’s King Restaurant, 8733 SE Division St, Portland, OR 97266

*For more information and updates on these programs,  
please visit [www.nwchina.org](http://www.nwchina.org)*



**Northwest China Council Membership Application Form**

Northwest China Council Members receive invitations to China Council events, a subscription to the quarterly newsletter and discounts on admissions, fees and books.

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Membership Category — Please check the category you wish:

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The Northwest China Council is a non-profit, non-partisan organization primarily supported by its members. Our mission is to increase understanding of Chinese culture, contemporary affairs and business in Greater China, i.e. China, Taiwan, Hong Kong, and the Chinese Diaspora.



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221 NW 2nd Ave, Ste 210J  
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Estate of Marcia Weinstein

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