US exit from INF threatens region

Washington's pullout from nuclear arms treaty with Moscow would put security in the South China Sea at risk

The signing of the Intermediate-range Nuclear Forces (INF) treaty on Dec 8, 1987 by then US president Ronald Reagan and Soviet Union leader Mikhail Gorbachev, in substance, carried significant implications to keep the world safe from nuclear conflagration for 40 years.

Rod P. Kapunan

As an exclusive security arrangement between the then Soviet Union and the United States, the treaty sought to eliminate their ground-based missiles with a range between 480 and 5,400 kilometers.

This also meant that states separating the two superpowers technically became "nuclear-free zones", thus avoiding the possibility of getting caught up in nuclear conflict between the two.

Specifically, the INF prohibits the deployment of missiles in countries used as a springboard to launch an attack that could reach either the US or Russia.

Since the INF was established, close to 3,000 intermediate-range ballistic missiles have been decommissioned, dismantled, removed or destroyed. The treaty brought hope that finally the world has taken the first step to disrupt the missile delivery system.

However, the US is now seeking to redefine the agreement to justify the presence of its delivery system in Eastern Europe, in order to intercept any missile attack that may allegedly emanate from Iran.

Effectively, the presence of US troops in Eastern Europe rendered the INF treaty dysfunctional, with the US and its NATO allies even flaunting their deployment of Pershing II missiles in Poland and Romania.

On June 13, 2002, then US president George W. Bush scrapped the Anti-Ballistic Missile (ABM) Treaty with the Soviet Union, which banned weapons designed to counter ballistic nuclear missiles.

Many political analysts agree that violation of the INF treaty began when the US deployed its military forces under NATO command beyond the boundaries that existed during the Cold War.

The invasion of Afghanistan in 2001 became the entry point to install military bases in Eastern Europe.

Today, the US has troops in Poland, Romania, Estonia, Latvia and Lithuania.

US President Donald Trump has accused Russia of consistently violating the INF treaty without citing any specific violation. The US refuses to admit that its deployment of Pershing II missiles already constitutes a violation.

US media continues to trumpet that alleged Russian violations of the INF pose a serious threat to American security when clearly US missiles — possibly armed with nuclear weapons — have been advancing right onto Russia's doorstep.

The US' withdrawal from the INF treaty would have serious repercussions for the existing security arrangement, not only in Europe but also in the whole of the South China Sea. Even if China is not a signatory to the treaty, it would nonetheless be affected by the US' withdrawal.

Trump cannot stretch his rhetoric to accuse China of having taken advantage of the INF treaty because it is not a member country of it.

Technically, China can cite the US for violating the INF treaty after it deployed the Terminal High Altitude Area Defense anti-ballistic missiles in the Republic of Korea.

Even if it has a range of 200 kilometers, it still constitutes a violation to the agreement as far as Russia is concerned. The same can be said of its deployment of the 280-km-range Pershing II missiles in Japan.

The US' withdrawal from the INF treaty would practically give it a free hand to deploy its missiles in the South China Sea. The logical sites are US military access points in countries including the Philippines.

Seeking to justify their presence as counterweight to what the US perceives as the growing threat of China, US military bases would then imperil the strategic and security balance in the region.

The placement of intermediate-range ballistic missiles across the South China Sea is likely to be treated by China as an issue that has direct bearing on its own security interests.

And the potential passage of US naval ships armed with nuclear weapons may compel China to view it as a provocative navigational patrol rather than one legitimately exercising its rights to freedom of navigation.

Thus Southeast Asian countries conceding to the US' unilateral decision to withdraw from the INF treaty could destroy the entire "security architecture" laid down by all coastal states facing the South China Sea.

The author is a columnist and political analyst based in Manila. He is also the author of several books, including Labor-only Contracting in a 'Cabo' Economy.

Quality of ESG Reports in Hong Kong

Hong Kong listed companies are required to issue ESG reports effective from the financial year 2016. As lots of investors and stakeholders have already viewed ESG reports as an important source of non-financial information for investing, especially for long-term investing, the credibility of the information is their main concern.

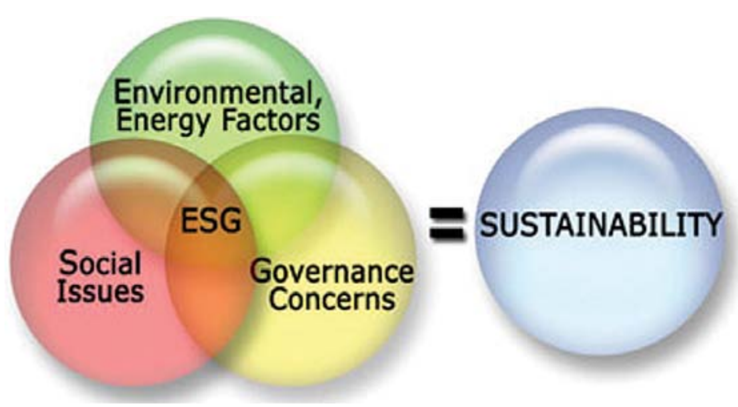
It is stated explicitly in Hong Kong Exchange's ESG guidelines that the board of directors of the issuers have full liability to all the information provided in the report. Non-compliance to listing rules can result in trade suspension or even delisting. Every listed company should fully comply with the requirements of the guidelines to provide genuine information under Hong Kong Exchange's Listing Rules.

However, as assurance is still not mandatory under the listing rules, how serious are the listed issuers towards the ESG reports even their directors are liable? In May 2018, Hong Kong Exchange released a review on ESG reporting after analyzing disclosures made by 400 randomly selected reports with financial year-end dates of 31 December 2016, 31 March 2017 and 30 June 2017.

It is found that only 38% of the reports comply with disclosure requirements in all 11 aspects. For industrial specific sectors, the industry with the highest compliance rate was Material, with up to 57% of full compliance. However, for Energy sectors, only 20% of companies under review have complied with all 11 aspects. Even for Hang Seng Index companies, only 36% of them have fully complied. Such a low compliance level is surprising provided that ESG report is mandatory. It is obvious that more than half of listed companies have not taken it seriously.

Mr Hauman Yeung, Director of Ascent Partners Advisory Service Limited.

Hong Kong Exchange's review is a gesture to show its demand for greater compliance. At least, the regulatory body has shown to the issuers that the ESG reports would be reviewed randomly. Whether the regulations have teeth will depend on the future attitude of the Hong Kong Exchange.



While the Hong Kong Exchange's review reflected the quality of the reports in quantitative terms, Ascent Partners, as a professional service provider, has gone through several hundred ESG reports to review the reports in qualitative terms. We are stunned by our findings.

It is found that more than 50% of the reports have come with obvious material errors. Some reports used wrong units in certain parameters. Some adopted inappropriate reporting methodologies. Some obviously gave wrong proportion in different scopes of emissions. Some of them had a wrong understanding of different emission factors. Several of them got a ridiculous mismatch with their industry when doing the stakeholder engagement.

To make this report more meaningful to investors, the Hong Kong Exchange may need to consider two aspects. First, do we need qualified sustainability professionals to prepare and sign off the reports? Second, do we need qualified sustainability professionals to do the assurance?

We all understand that Hong Kong Exchange has experienced huge pressure from listed issuers, especially small listed issuers, not to further tighten their requirements. Furthermore, from the business point of view, more regulations may negatively affect the eagerness of some companies to go IPO in Hong Kong. The current ESG reporting requirements may already be good enough for the Hong Kong Exchange to strike a balance between business and reputation.

The direct impact on IPO business is one thing, but Hong Kong Exchange, as the world's major stock exchange, also needs to take into consideration of other issues such as liquidity and investors' confidence, particularly the interest of huge pension funds and long-term funds.

More importantly, our reputation depends on our laws and regulations, as well as the implementation process. If ESG reports are only viewed as an ornament without any values to investors, our reputation as a major financial center in the world will be heavily jeopardized. We are not creating a favourable environment for serious investors, but short-term gamblers and hedge funds that increase the volatility exposure of our market.

Hong Kong Exchange may have its own undisclosed agenda and timeline on ESG reporting requirements. It is imperative that Hong Kong Exchange should have a roadmap on the development of ESG reporting. Also, to alert listed issuers of their own liability, Hong Kong Exchange should consider to require issuers to set up an ESG committee in the board of directors with one INED as the committee chairman to sign off the ESG report before publication. In this way, the quality of the ESG reports can be improved.