



# THE ROAD OF ASIA

INTERVIEWS WITH  
SHANGHAI FORUM 2018  
GUESTS



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Fudan University  
Korea Foundation for Advanced Studies

*[ In Shanghai Forum 2018, we recruited 27 of our top students as student journalists for honored guests at the Forum. Their specialist knowledge, commitment and self-assurance were all employed in taking down these words of wisdom. This book of records from the interviews is a crystallization of that gathering of words of wisdom and exchange of viewpoints with our distinguished guests.*

*Shanghai Forum Organizing Committee extends its heartfelt thanks to every distinguished guest and student interviewer- we hope that ,through this book, we can share the force of thought and wisdom with more of those colleagues engaged with Asia' s Development.]*

## Shanghai Forum 2018-Name List of Student Journalists

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# 目 录

## Scholar' s Dialogue

- |    |  |  |
|----|--|--|
| 1  | Shamshad Akhtar<br>- Hu Tao                          | China's Role in a World of Change  |
| 8  | Graham Tillett Allison<br>- Wu Xinbo                 | The Future of Sino-US Relations in the Trump Era                                     |
| 21 | Kawamura Takeo<br>- Fan Yongming                     | Peninsula Issue and the Party Election – Japan's International and Domestic Concerns |
| 35 | Luiz Carlos Bresser- Pereira<br>- Sergio Suchodolski | The New Development Theory and Exchange Rate   |

## Interviews

- |     |                        |   |
|-----|------------------------|---|
| 42  | Naoyuki Yoshino        | Role of infrastructure in regional cooperation and integration  |
| 52  | Berhane Gebre-Christos | China-Ethiopia Relations Beyond Economic Cooperation  |
| 59  | Jonathan Woetzel       | The Sustainability of Chinese Economy and the Challenges of Chinese Investment in Africa  |
| 66  | Ramu Damodaran         | The Changing Landscape: UN and New International Development Organizations  |
| 74  | Rainer Klump           | Stability Begins at Home: Future Options for the EU and China   |
| 80  | Zhang Chun             | Forum on China-Africa Cooperation: Promoting New Developments in China-Africa Cooperation   |
| 88  | Zhang Haibing          | Changing International Trade Pattern and China's Attempts to Improve Global Trade Governance  |
| 94  | Wan Guanghua           | "Disintegration" Trend Emerges and Distribution System Waits for the Urgent Adjustment  |
| 100 | Ma Haibing             | Make the Concept of Green Governance Penetrate into Countries along the "Belt and Road"   |
| 108 | Shi Zhengfang          | Green Governance in the "Belt and Road" Initiative From Coordination of Environmental Standards to Disclosure of Environmental Information                      |
| 115 | Li Wan                 | The Construction of Science and Technology Innovation Center in the Process of Innovation "De-centralization"   |
| 122 | Zhang Junjie           | To Guarantee the Match between Green Investment Income and Risk by Adopting the Legal and Market-oriented Means – To Develop China's High-quality Green Finance |
| 130 | Qiang Xiaoyun          | Cooperation among China, Russia and Central Asia Demands More Confidence and Patience   |

139	Dong Julan	Sticking to Supervision and Control by Government to Promote Smooth Financial and Economic Development under the New Era
147	Li Bingrui	Exploitation and Protection of the North Pole in the New Circumstances
151	Li Mingjiang	Ensuring Mutual Benefit, Meeting Practical Needs, and Expanding Multilateral Cooperation
158	Eileen M Sullivan Marx	When LIFE Comes Into Real Life: What Can We Learn from the success of Community Based Long Term Care for Older Adults in Philadelphia?
166	Luciano Galvão Coutinho	The Participation of Multilateral Development Banks in Economic Globalization
174	Ruth Shapiro	Social Enterprises Sustainable Development in New Economy Era: Values, Challenges and Responses in the Context of China
182	Wang Haisu	Reasonably Allocating State Credit and Rationally Treating SMEs' Undertaking of Social Responsibility
191	Hong Nong	Beyond Oil and Gas: Other Areas and Models of Joint Development in the South China Sea
196	Da Wei	View China's Policies towards the U.S. from the Perspective of Trump's and American Logic
202	Nie Zaiqing	Guided By User Needs, Using Artificial Intelligence To Solve The Problem Of Aging

# China's Role in a World of Change

Editor: HUANG Ximeng

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**Shamshad Akhtar**

Under-Secretary-General of the United Nations, the tenth Executive Secretary of the Economic and Social Commission for Asia and the Pacific



Interviewer: **Hu Tao**

Director of World Wildlife Fund (US) China Program

*China has been trying to improve multilateral mechanisms for global governance through Belt & Road Initiative and other endeavors. In a world of change, China may act as a more important role in regional and global affairs.*

**Hu Tao:** Doctor Akhtar, in your keynote speech, you talked about Asia's responsibility in a world of change. I wonder what do you think of China's role in a world of change?

**Shamshad Akhtar:** Given the significance of China in the Asia-Pacific economy and globally, what steps China takes will not only influence the domestic economy of China, but will also matters a lot for global economy. So right now, we have to look at what is gripping the world today. The directions in which the world is going are quiet

concerning. And we have seen multiple factors that protracted global crisis, during which there has been economic declines and a lot of jobless men. It was very important that, there should be a global change to make sure that some of the developing countries that end up suffering more on the edges are able get support to be lifted out. So as I see, reviving within that context, reviving domestic demand of China can not only promote world economic balances, but also get itself on a more sustainable development. And I think what is interesting is that China has been able to move from an investment-driven economy to more consumption-oriented in a few years, and also accomplished this sophisticated comprehensive structural reforms which include caring most of the people, caring the environment, putting in place what we called inclusive sustainable development. To conclude, I'd like to say that I think China is going to lead the goals of sustainable development. And hence, the position of China really matters, because there will be an influence on regional economy, as well as globally, that others would like to pursue as well.

**Hu Tao:** What's your opinion about China's influence in Asia?

**Shamshad Akhtar:** I think what is significant for China is playing its role in multilateralism and global governance. China has already been doing the multilateral development business for forty years, from Asian Development Bank to World Bank. China has always been the unique voice in multilateralism. Within the changing of world economy, there has to be more voices of developing countries. And clearly, now, China has position itself to not only try to get more voices in the IMF. China need to borrow from World Bank, but it keeps connecting it to support the multilateral mechanism. China is now growing to be a regional responsible person of multilateral financing institutions, like Asian Infrastructure Investment Bank and New Development Bank, and it also sets up special supporting fund. Now all these have been related to B&R Initiative to promote more regional cooperation and integration. So we can have more diversified markets in this region. We can definitely see that China



invests a lot in this regional, and there will be more trade. It's a very significant direction, or say a power dragger, that will open up new markets for Asia. As we know, trade can help poor people out of poverty. So I think it is fascinating that China is trying to promote multilateralism and take responsibility in global governance. Hopefully, other countries will come back to table when their domestic economy is more out of the woods.

**Hu Tao:** China will host an import exhibition this year in Shanghai, trying to attract other countries to export their command to China. What do you think of it?

**Shamshad Akhtar:** China has to open up its market for imports, because it cannot go one way. I think it is very subtle, President Xi talks about the idea about mutual and shared prosperity. One cannot export one way, because bilateral trade has to be two-way business. If you do not allow others to export, the balanced situation will be vulnerable. This is a problem that you will find in China's economy. China is reaching out to be the world's important market. So it is very good steps going forward to equalize the trade balance.

**Hu Tao:** China is promoting Belt & Road Initiative, what do you think of the Belt & Road Initiative? Do you think it is an opportunity or a challenge for the B&R countries?

**Shamshad Akhtar:** First of all, I think it's an opportunity. Look at the past, the developing countries count on multilateral development banks for infrastructure development, because they cannot finance for infrastructure development in their own countries. Our region is a place where the tax-GDP ratio is very low. So the domestic resources are not substantive enough to support infrastructure development. Countries have to mobilize their domestic resources, but until that change happens, China has to

come to fill in the gap with the BRI and providing funding to finance. Some countries are worried that China may take more interference in other countries, but every country has to reflect on how much it wants to be benefited from BRI, nobody will be enforced to enter the infrastructure projects.

But there are two major issues need to be resolved. One is the political issue of labor market. If BRI develops into importing labor from China, it will result in labor markets discussion in the recipient countries of BRI. I can talk Pakistan, my own country, where I interview some businessman, asking them whether you are comfort with the Chinese managers and labors coming to help the developments. The answer is that we do need new skills but there is resistance to Chinese labor.

The second is the question of bill stability. Some countries have big concern on debt and the ability to repay, not only their obligations of China, but also to other countries. It is hard to pass a final conclusive agreement, because the situation varies from country to country. For many countries, their imports exceed the exports, so they don't have sustainable financing for payments of debt. This is a domestic problem, but as a responsible lender, China needs to consider this problem.

**Hu Tao:** What attitude does UNESCAP hold towards BRI? Is there some cooperation between UNESCAP and BRI?

**Shamshad Akhtar:** UNESCAP have been a supporter of BRI, but we do not take hard positions on anything because we are not a member of it. We facilitate technical world, so we undertake studies and offer recommendations to China. We also need to ensure that BRI respects social and environmental rules in the projects, and respect the rule of financing. We have had several conversations with member states about BRI on the ESCAP platform, because we have linked governmental bodies and many members, so we have debates on BRI. There have been a few intergovernmental solutions being

adopted to carry forward the technical rules to support BRI. We have been promoting development of transportation, energy, ICT, market integration and mutual trade. We are pushing countries to reduce their economic tariff. All of these will automatically benefit BRI. They don't need to be restarted. It just needs to jump on some of the plans that ESCAP has promoted and make them to be a member-led process, so it will not be desisted by countries. We also have opportunities to hold some events, organize several governments to talk about the real benefits of B&R Initiative - do they need more, where are the problems they face. This is a good and effective mechanism for China to get feedback.

**Hu Tao:** Thanks so much for the support for the B&R Initiative. There is an economic corridor between China and Pakistan. Pakistan is one of the most important countries along the B&R and Chinese people think Pakistan is our good friend. So what do you think of the potential of the China-Pakistan Economic Corridor?

**Shamshad Akhtar:** Well, as you said, it's about the long-standing trust and partnership between two countries. For another reason, we are very strategic located. And also, I think on the Pakistan side, there is a kind of respect that China has had non-interference policies. Given the nature of this strategic location, it makes sense to build this Economic Corridor. Also, Pakistan faces certain constraints and needs help.

One problem is capitals to invest the infrastructure. Some of the constructions are very complex. If you recall the highway which has been developed in the past, the architecture is so daunting that it could not happen without China's architecture design and support. Now the corridor is going deeper, not just for land transportations, but also for connecting the port. Gwadar Port is an example. BRI is very critical for the Gwadar Port. Pakistan government wants to develop Gwadar as an economic hub, because it provides an important port and using that port will improve the efficiency of

transportation. So China-Pakistan partnership to promote Gwadar Port is very critical, not only for China, but also for Pakistan itself. Gwadar is located in Balochistan Province, which is one of the least developed provinces in Pakistan. It needs uplift. Once the corridor is developed, it needs to be served with hotels, businesses and industry. So Gwadar will be developed fast.

Another problem is energy, Pakistan is short of energy. Now there are investments in renewable energy and in thermal power plant. We have such resources but they had never been exploited. Clean technology is going to be developed as a part of domestic reforms and China is going to invest in this generation of technology. So we see this as a very good situation. Pakistan has to grab the opportunity to develop and take reform strategy.

**Hu Tao:** You are the Under-Secretary-General now. And before that, you were Vice President of World Bank, Governor of Central Bank for Pakistan and IMF. As a successful woman, can you provide some advice, or share some experience to young women?

**Shamshad Akhtar:** Well, I think, the road is always tedious for women, I mean, it is always hard for women to have an access to education, but that is not the case in my life. I come from a family where education has been promoted, so I did not have problems for higher education. But women might have problems even they have had education. The real struggle starts when you enter the labor market. At the time when I was growing in multilateral development banks, there was a glass ceiling. Breaking that ceiling is not easy, but you have to be patient. It is very important to have trust and faith in yourself and to remain focused on what you want to do. Never give up hope, but never feel that you know everything. I think my principle has always been that I don't know this, I need to learn more. I went to post-doctoral simply because I think I needed to learn more in different disciplines of economics besides my PhD in economics, I

wanted to figure out some new frontiers of economics. Then you have to always be a learner on job, there is substitute for formal education system, but there is no alternative to learning on the job. The training you get in the institutions is the real solid market training. I have always had the quest for knowledge and I would classify this as the No.1 factor to my success.

But there are huge social cultural barriers to women. Female socialization is a big problem. I think now girls are living with the openness of media and computing power that they have access to knowledge, but it was not there when I completed my PhD and went into the world. In the past, it was difficult for women to go to the labor markets, but now women are more calculated on that. They realize that socialization is an important part of being noticed. I didn't do that in my growing days, but now I have to do more socialization within the UN and my staff will tell you that this is the part I'm not very happy about. I have to perform that I look like a diplomat. But one has to acquire skills to move on.

Also, to draw some good mentors is important. I didn't have any mentors on my career, but I had some great supervisors, who had faith in my technical capability and always encourage me. Now I also offer mentorship to other females who are engaging in my career. I hope I could induct more women in their life and encourage more women to engage in this career.

# The Future of Sino-US Relations in the Trump Era

Editor: Yan Yumeng

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**Graham T. Allison**

Douglas Dillon Professor of Government at Harvard University, Belfer Center for Science and International Affairs



Interviewer: **Wu Xinbo**

Professor and Executive Dean of Institute of International Studies, Director of the Center for American Studies, Fudan University Vice Dean, Fudan Development Institute

*The sentiment of anxiety about China in the U.S. society and Trump's preference for economic nationalism, as well as trade protectionism reflect some significant changes in the U.S. society. It is an important issue for Chinese and American scholars and government leaders to think how to avoid Sino-US relations falling into the "Thucydides trap".*

**Wu Xinbo:** Good morning. And welcome to Fudan University to Shanghai Forum, Professor Graham Allison.

**Graham T. Allison:** Thank you very much for that.

**Wu Xinbo:** Over the last several months, the entire world has watched with great concern over the trade and economic friction between China and the United State. Could you please explain from a U.S. perspective, what was behind Trump's approach to this issue?

**Graham T. Allison:** If anybody knew exactly, they would get a prize. But Trump is mysterious and is the most unusual president that we've seen. So he has Americans mystified as well as Chinese. But I think, on the trade war, he's actually a reflection of the fact over the last 25 years, especially over the period since the financial crisis in 2008. China has emerged as a major power. And China is rising in a manner that it's faster and further than anybody else ever so long. And Americans are only little by little waking up to this fact. So, as they awake to this fact, they discover that here is a country that is arrival of the U.S. in almost every realm and surpassing the U.S.. This is a threat for Americans who believe that their natural place is number one and the people who bet her being top. And so that's reflected in the head of a strike. That's reverberating in the system. Trump felt this and took advantage of it in the campaign. He is the first person to so effectively captain this group of a large part of the American public think in the feelings that China must somehow be cheating. Otherwise, how could it have been so successful? And so now there's a temptation to blame China for almost everything. And there are some of the things that China deserve while some are not, but behavior of China that when it was small and inconsequential, nobody really paid that much attention to. Now it's become to be exaggerated as a big item. All of this, in my analysis, is just a reflection of the underlying dynamic from the severe rise of China, which rivals a ruling of the U.S.?

**Wu Xinbo:** Well, that's related to my second question. During my recent visit to the United States, I found out that in addition to common positions policy on the trade issues, there exists in the U.S. society a sentiment of anxiety and even to

discontent for the rise of China. This is quite unreal in my observation of the United States of the last several days since the end of the cold war. the U.S. used to be very self- confident and optimistic about its future and always advocating for openness, multilateralism and international cooperation. Now of a sudden, it seems to be changing. What exactly behind this kind of strong sentiment about China?

**Graham T. Allison:** You're reading this situation is exactly right. If we look at Washington today both in the political class and the policy, there's an anxiety. Well, Thucydides would say he already wrote the book about this. So this story spoke which was the ruling power as it's all arising Athens, he talks about the fear that instilled in Sparta, because if I am accustomed to being a top of every period, and there's somebody emerging that rivals me in the space that makes me insecure and fearful that the world might change, of course the worldly city, because it's always changing. So partly this is a result of real things in the world externally. Partly it's because of things internally in the U.S. I would say, even more importantly, internal the U.S. where the self-confidence of a country that, let's say, the end of the twentieth century was growing confidently and thinking the world was moving in its direction since the beginning of this century. I think that's a pretty good way to remark it. Actually, if you take 911 the terrorist attack on the World Trade Center, and then Bushes began the adventure into Iraq and next the Arab spring, which the above the administration thought it could push along the liberation of Libya and then a mess, plus the financial crisis which is huge and the great recession which the U.S. was much slower coming out of. And China was always a drag on the confidence of Americans. And then at the same time, you've had this phenomenon that now we understanding. Yes. So the rise of populism in most democratic countries where people that feeling left behind.

**Wu Xinbo:** You might have conversation with the media and policy people. I think the region of China today is sometimes selective, sometimes even distorted,



because they do not interpret China in the right way, for example, China's economy grew in the last several years. The single most important thing coming out of this is to get eight hundred million people out of poverty. There's a great contribution to the world that this should not be regarded as a major threat to the United States or to any other countries. And the interpretation of China in the United States, I think, there is also some kind of exaggeration and distortion about the long term strategic intention of China's 19th CPC National Congress. So what's your take on China at this moment, especially after the 19th CPC National Congress. How do you project China's future development both internally and externally?

**Graham T. Allison:** Let me start first with your premise and I'll answer the question. Because I think as usual, you are very astute observer of what's happening in the U.S. and I think your interpretation is correct. Now in the Thucydides Trap, there's the reality of what's happening. And then there's the perception of what's happening. Thucydides talks about the fear that this instilled in Sparta, and he's talking about the perception with the psychology. So dynamic misperceptions are magnified and miscalculations are multiplied, and therefore, the risks of being impacted by external actions are amplified. So if I see China growing, and now I just project that out at that rate for another decade or two or three and multiply. And I think China will be twice as big as the U.S. economically. Will China continue miracle growth rates for another decade or two or three? Nobody knows. But if it did something, so I exaggerate similarly what I perceiving China. They think that this thing of the seven hundred or eight hundred million people out of poverty, in fact, should be celebrated by all human beings, especially poor people who now come to have some more dignity. And I think every human being in the world can be proud every day. That happens from anybody. But if it appears to be like, wait a minute, eight hundred million soldiers in potential amateur of that. China doesn't appreciate it because it's only thinking about China,

back in the same way and the Americans only think about U.S. China is huge as we would be used to, and this is the biggest player in the history of the world. There's nobody that's been to speak. So for an American, there is not just a million or a hundred million. It is a billion of people. How can anybody have more than a billion people? It staggers the imagination. So it's easy if you are in a fearful mode to exaggerate it. And I think one of the difficulties is to try to have some realism in the conversation. And that's why it's very important to have a lot of thick communication between people and between leaders.

**Wu Xinbo:** This raises a question that involve both you and me as scholars, how can we, as scholars do a better job in a difficult time of this relationship by educating to public and also by informing the policy makers to give them a more accurate picture of this relationship. What can we do?

**Graham T. Allison:** Well, that's a good question. So I think three things. Firstly, I think the most important thing is for us to try to get our own lines around the problem and look at it objectively. So what I try to do with a book about Thucydides Trap is to say this is a reality. You cannot deny that China is rising now and it's going to continue rising. And that's going to have an impact on the world, and especially in the U.S. and you can't deny that the U.S. has been the ruler for a hundred years that actually the order that the U.S. has been mainly responsible for providing and has provided the environment in which China is been able to grow search for such a miracle and enable all the agent. So all of those are facts and the stress, that comes in this dangerous dynamic. That's a fact. So we look at the facts, and then we say, well, does that mean that it must turn out catastrophic? No, four of the sixteen cases are examined if none of twelve worse. Look at the four cases we studied. So firstly, we have to provide the facts. Secondly, I think for policy makers, policy makers are as responsive to their political agendas as they are to the objective world. So one of the virtues of having academics, you can have more independence. It is to say, I understand that your political agenda,

but I am simply telling you what's true, but the same way that the intelligence communities of each government have their primary responsibility until the president's things. They don't like to hear. That's the job and speaking truth to power on the job for a professor at the job for intelligence officer and we don't do that as well as we should sometimes what we do. And then I think for publics and remind them the ways in which these conditions encourage misunderstandings, characters, exaggerations. So in the U.S. today, China is not quite demonized, but it's certainly on the path to be. And if you look at the U.S. discussion of Russia and Russia is completely with us in ways that are totally unrealistic, I believe. And so I say that. people said that you must be sympathetic to the Russians. I say no. I am an old cold warrior. I was very much in favor of the defeat of the Soviet Union. But I can't. Somebody says the Russians are the main recent American democracy. He's got a problem. And I think no, American democracy has deep problem, some of which are aided and abetted maybe by questions from time to time. The main reasons have to do with our problems, not with somebody else.

**Wu Xinbo:** Let's talk about the U.S. itself. I mean, we have talked about China. To some extent, this kind of strong sentiment about China and Trump's preference for economic nationalism, as well as trade protectionism reflect some significant changes in the U.S. society. In your opinion, is this a temporary phenomenon, or just the beginning of a long-term change?

**Graham T. Allison:** I wish it to be only Trump or just about Trump or just temporary. But I think it's much more likely that this is a long term and deeply rooted. Now, why is that? Firstly, Americans, for all their experience, have been number one. So the idea that they might be rivaled by some other party is very psychologically uncomfortable and it makes them insecure. So that just is the fact, and it has nothing to do with anything else. It seems like the same that thing happens between two companies when there is a company upstarting. Even the family of a child goes to be bigger than the

father. That can be complicated. It is what I mean. Secondly, there is a fact that the American democracy today, as its performing is dysfunctional and everybody now recognizes that it would be nice to blame somebody else for that. So that's why Putin actually is very attractive because you could say, well, Putin was undermined. Americans were demanding democracy well before putting up there. So Washington, as I wrote a piece about DC, is acronym for dysfunctional capital. So the Americans look at, as they say, who brought us endless wars in Afghanistan and Iraq, dismissed in the Middle East and Libya and who brought us the financial crisis and the great recession. I don't think the government class seems to know how to govern. That's what Trump said. He expressed the view and a lot of people responded to it. So that's a big problem for us to come into the third economic for more than half of the population whose income has not been growing for a whole generation in real terms. They think that their lives are not getting better. But the American dream says if you work hard and play by the rules, your children can be better off than you are. These people think there is somebody is denying me my dream. And so these are all problems that Americans have to cope with for ourselves. And there's a temptation if you have problems within your borders. To think, maybe it's so externalizing in problems by blaming somebody else for your own problems is a very common phenomenon in human beings, and unfortunately in states.

**Wu Xinbo:** Trump promised in the campaign and even after he entered the white house that he was going to solve all the problems. Up to now he has been in office for almost one and half years. How would you grade his performance as a president?

**Graham T. Allison:** So we've never seen anybody like Trump before, I believe. And I have been studying along with presidents. We tend to think he is a quite unusual president, but nobody exactly like it. And there's no doubt that he came to office as an outsider amateur by basically breaking all the rules. So that's what he's been doing.

And I think I would have to give up the incomplete but mostly likely a low mark if I was giving. I would say that withdrawal from the Paris accord was a bad mistake. And the withdrawing from the Iranian Nuclear Agreement also is a bad mistake. The one case in which I slighted, I think it is Trump's instincts of Russia, and it says correctly that we would be better off if we had a better relationship with Russia. But this is all got caught up in the politics of Russia Gate and his instincts about trying to deal with it and have been completely dysfunctional. So he's only made the problem worse. Because it makes it seem like he's got something exciting, and therefore this feeds the poisonous politics. The one place I am more hopeful is on North Korea, where I am hopeful that we're going to see a summit and we'll see a major agreement. And the agreement is going to be in principle to have the nuclearization and the normalization of relations with negotiations about that over a period. If that happens, I think it's going to be win-win for Trump and for Kim Jong-un, but also for Xi Jinping in China and also especially for president Moon Jae-in in South Korea.

**Wu Xinbo:** There's no problem that Trump wants to have a summit and to have a successive summit so that he can claim credit for that and even, get the Nobel Peace Prize. But a real challenge is that the new position of PRK (People's Republic of Korea) will be a long-term process. So, even when the grand bargain is made, you still need long and strenuous efforts to implement the deal. So the concern is that Trump may not have the right team to implement it, or he may not have this kind of resources as needed to make sure that the deals will be deliver. So what's your take?

**Graham T. Allison:** I think you're exactly right. I agree with you, but I think mostly we have to compare what Trump may accomplish that a summit with what the realistic alternatives are. At the beginning of 2008, so just once ago, there were only three possibilities. Possibility one is that Kim Jong-un continues testing nuclear weapons and acquires a reliable capability to strike the U.S. with nuclear weapons. That was the most

likely. Second one is that Trump ask North Korea to prevent option one. That was also quite possible. And thirdly we might have some minor miracle which agreement is very complicated and it has to be implemented over a long time and negotiation. So as between options one, two, and three, three is a lot better than two and one. But they have to be very good and to be better than two and one which is terrible. So now if he reaches a general framework accord, he will declare that we solve the problem. That will not be true. But we should not take his words literally any more like living in a new world. And these are more like advertising slogans, just images of sorts, so that he may even in his own life, if we solve this for this problem. This problem will be with us for all of the rest of our lives. But what's going to be complicated problem step by step over a long period, and not just for the U.S., for China, for South Korea, for the other parties? I think it is very important that China be part of getting to the agreement, and I think it would be more important after that the China be part of the process implementing because this is a big problem for China too, having a country right on China's border which acquired nuclear weapons. It's a great embarrassment, I think for Chinese foreign policy, People would like to say as Trump said to Xi Jinping in Mar-a-Lago when they first spent on April first in 2017, he said, look at this mess. And who made this mess? He said, Obama, Bush and Clinton. And he said, how about you? And how about your guy that was before you, you didn't do anything. And now you leave this mess to me. So, I agree with that.

**Wu Xinbo:** North Korea has long been demonized in the U.S. But a major deal with North Korea will require a lot of significant adjustments in the U.S. policy and strategies towards the Korean Peninsula. Is the U.S. ready to move in that direction? Or this is Trump's personal freak for all his personal credit.

**Graham T. Allison:** This goes back to your question about Trump. In general, the U.S. would not be prepared in the U.S. U.S. is like a big aircraft carrier, and it just moves slowly, goes in the same direction and very hard to make adjustment. But Trump is like

a jockey in every direction. Unfortunately, if he goes this way, they could also go that way. But I think for Trump, he is not ready to all of the orthodoxy about what the U.S. requires in Korea. So if he could reach an agreement that requires making incredible that the threats to North Korea have been reduced, which of the course will be essential? He's prepared. I think they make changes, including reductions above two American troops there. Even I think the ultimate solution, if the South Korean says it's time for you guys to go home, he's perfectly happy to go home. You might even want to go before the South Koreans wanted and thought that he decided. They say that in order to have a peace treaty, they heard the troops have to leave, we agreed.

**Wu Xinbo:** In this regard, Trump may be more qualified a president to make a major change to the traditional U.S. policies, than his predecessor.

**Graham T. Allison:** Sometimes strange things happen so that as Americans only mixed to China. And so maybe only Trump can make a deal with controller.

**Wu Xinbo:** Let's say if Trump seeks your advice on his China policy? I hope he does. What would be your advice to him?

**Graham T. Allison:** That's a good question. So I have certainly caught his key advisers, many who were friends of mine that for a long time. And I say to them the number one problem for the U.S. and I think the same thing the number one bottleneck for Xi Jinping is how to escape through from the trap. I think you're likely, if you just practice business as usual, leading a government that will find itself your term successes in a catastrophic war that will destroy everything. Americans care about all of our hopes, all of our dreams, all of our interest, and similarly to China. So realize you've got a really, really, really big challenge, so that promise opposition too. Don't be fatalistic. Many cases are successful, but not by just letting things drift, not just by going with the flow. And you have to exercise imagination and adaptability and adjustment. You don't have

to do things just the way before. You have to do things different. And you don't have to only think the way before, you can think different. Now encourage the whole strategic community to start thinking of some such things. And I say, would I give this stuff to Americans? I say for Xi Jinping can he got this idea? He said, I think we need a new form of great power relations. Why new form? So one of the folks who work in Washington might have to say why do we call it new? We call it new because we understand all form is going to follow the two civilization patterns into a war. You don't want a war. China does not want a war for sure. So we need new form. I think it is great. What means that we said we had a few points that it's going to be done confrontation, and it's going to be mutual respected a win-win solution. I think that's very abstract. What about details? He said, we were hoping other people will help with some ideas about things. And if I were telling Trump, why don't you say I have some ideas about a new form of paper? Here are six things to do. One, two, three, four, five, six, let's start with those. And then I think the Chinese would say, no, we don't like them too, we don't like number five, but there are other three would sort them here, and we have three more ideas. So I think that's what we should be doing very actively. And I think North Korea, one category for new form of great power relations would be crisis prevention and not management prevention. So how do we prevent crises that could drag the two into the war that we don't want. If U.S. attacks North Korea and North Korea attack South Korea, then we have a second Korean war. We can have Americans and Chinese fighting each other in Korea, just like happened in 1950. So would that be crazy? Yes. Let's prevent that. Taiwan is another very good way to get the war between U.S. and China. Would be for the U.S. to encourage Taiwan to be independent? I think every Chinese, almost every Chinese would say no, that's a matter that China would have to fight. Even fight the war with U.S. they think it is yes. It's better to fight it out. We have to prevent. So how do we prevent this? So we worked on that front so that I think there's plenty of work to do.

**Wu Xinbo:** What's your advice for the Chinese leadership about how to deal with Trump?



**Graham T. Allison:** I would say they have a difficult challenge. Certainly I have to appreciate that this is a most unusual individual. And there's an American VC who says the problem with trying to understand focus that most people take him literally but not seriously. But that's a long way backwards that you should take him seriously, but not literally. So he thought like normal. And when he says something that doesn't meaning exactly literally, those are more points to understand Trump's absolutely and seriously ambitious about what making America great again. So is it impossible for China to be helpful in America being great again or just American greatness requires diminishing China? Well, in some people's minds, it is yes. Because I can't wait that if you're great. Is that true? I don't think so. I would think Chinese should be invented about how they can help America be greater. When we say it and the North Korean case is a wonderful example. If it is able to show that the reason of only he was only apart. Yes, true. Is he able to get a resolution? That's easy win for both. I would think similarly on the trade front. There will be some major adjustments. Trump is fixated on bilateral trade balance. For most economists, I believe that it is a foolish object. But if that's something from cares greatly about and if it's not that hard for China to address it, I think it should address it. And I suspect something will happen positively on that front. But they should look for other areas in which to cooperate. Unfortunately, on climate which would be natural and crucial, Trump has a bizarre set of views. So I don't think there's much to do with respect to that. But I think, for example, in the Iranian case, it is perfectly possible that China is much more distant from it could be helpful if we're going to find some way to not have the Iranian agreement explode, unfortunately, I am afraid they do.

**Wu Xinbo:** This is the first time that you are invited to attend the Shanghai Forum. And yesterday you delivered one of our key speech. So what's your impression of the Shanghai Forum?

**Graham T. Allison:** I was really honored to be part of it and very impressed with the level of the conversation and bait the discussion. I like, especially the roundtable that you book chaired which you maybe have to comment on all the papers of the other parties. But I thought we had a very lively discussion. And I have met a lot of people of the sidelines. So I think people having a good time and learning a lot.

**Wu Xinbo:** Thank you and welcome back. Thank you very much.

**Graham T. Allison:** Thank you.

# Peninsula Issue and the Party Election – Japan’s International and Domestic Concerns

Editor: Yu Zhen

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## **Kawamura Takeo**

Member, House of Representatives  
Chairperson, Committee on Budget,



## Interviewer: **Fan Yongming**

Professor, School of International Relationship  
and Public Affairs, Fudan University

*it is necessary for Japan to promote resumption of the six-party talks, to get North Korea involved, and to get Russia included, so that the participating countries can get to explore feasible solutions under the premise of mutual coordination. It is impossible for Japan to bypass South Korea to develop friendly relations with the North. Japan should cooperate with North Korea on the premise of maintaining Japan-ROK relations.*

**Fan Yongming:** Very appreciated for you to take the interview today as you got so busy a schedule. What would we talk about next? We have talked enough about Sino-Japan relations. Could we just talk about some other countries that are not as serious as the one we talked about? By the way, this interview takes

the form of video recording throughout the entire process. Recently, Sino-Japanese relations have got greatly improved. It is particularly important to create a good surrounding environment. What kind of views do you have on the current situation on the Korean Peninsula?

**Kawamura Takeo:** the U.S.-DPRK meeting scheduled on June 12 has now been cancelled or temporarily postponed by President Trump. The whole world is very concerned about whether and when the U.S.-North Korea summit could be back to the right track. How China will mediate between the United States and the DPRK and what kind of advice it will give to Kim Jong-un are very worthy of attention. Kim Jong-un has visited China twice recently. It is a result of many new changes occurred so that his dependence on China has become even demanding. China has always been a partner of North Korea. From this perspective, we can feel that China will continue to have a big influence to the United States, North Korea and South Korea in the future.

**Fan Yongming:** In other words, do you think that how China plays a middleman and mediator role between the U.S. and the DPRK is especially worthy of attention, right?

**Kawamura Takeo:** Yeah, I mean that.

**Fan Yongming:** Previously, we had tried to promote denuclearization of the Korean Peninsula through mechanisms such as the Six-Party Talks. However, the six-party talks have not resumed since North Korea withdrew. We now only got such dialogue mechanisms as the North and South Korea dialogue, the dialogue between the United States and North Korea, dialogue between the United States and South Korea, and dialogue between the United States, China, the ROK and DPRK in place. Although Japan has a very close relationship with the Korean peninsula, it seems people always feel that Japan has been excluded

from the process. What do you think about this?

**Kawamura Takeo:** Judging the current situation, I think it is necessary to promote resumption of the six-party talks, to get North Korea involved, and to get Russia included, so that the participating countries can get to explore feasible solutions under the premise of mutual coordination. This is a point very important - To resume the Six-Party Talks, to allow countries to formulate rules on the premise of mutual communication. Indeed, as you said, Japan now has a sense of being marginalized, and some voices point out that Japan should not rely entirely on the United States. When this kind of voice arises at times, I called on Japan to actively take steps and promote to resume the six-party talks.

**Fan Yongming:** How likely do you think the resumption could be?

**Kawamura Takeo:** I think there is such a possibility. Recently, Premier Li Keqiang has visited Japan. In this sense, a meeting between Prime Minister Abe and President Xi Jinping is even more meaningful and imperative.

**Fan Yongming:** So, in other words, the situation in the Korean Peninsula is a top issue that the three countries China, Japan and South Korea have to face in the future. A visit to China by Prime Minister Abe and a visit to Japan by President Xi Jinping will surely become a hot topic in the next. Japanese side must release more positive signals. In the next step, Foreign Minister Yohei Kono should take steps to procure a restart of the six-party talks, right?

**Kawamura Takeo:** We can take steps, and I think we should take steps. Foreign Minister Kono is actively conducting diplomatic activities, and Prime Minister Abe is also on a state visit to Russia. The initiative to promote resumption of the Six-Party

Talks is naturally within the plan of Japan in the next step.

**Fan Yongming:** If Japan can actively take steps, it can gradually exert its influence. And China is happy to see Japan play a bigger role in the Korean Peninsula issue. If the United States is too self-willed, it could face uncontrollable risks, and such a situation is not ideal for us. In terms of maintaining peace and stability in East Asia, The United States, Japan and China play a pivotal role. Although Japan and the United States are allies, it is not uncommon for the United States to sacrifice Japan for the maximization of its own interests, especially after Trump's election. What is your opinion on this matter?

**Kawamura Takeo:** For Japan, there is also a kidnapping/abduction issue in addition to the Korean peninsula denuclearization. Japanese people are very concerned about the development and look forward to resolutions to solve such problems like the Megumi Yokota kidnapping. Therefore, Prime Minister Abe will certainly talk about the three topics of kidnapping, nuclear weapons and missiles when he delivers public speeches domestically. One of Japan's expectations on the U.S.-DPRK talk is also about kidnapping. President Trump is able to understand Japan's key positions and demands, so the negotiation for settlement of these issues is worth looking forward. However, there will be also negotiations and wrestling in the U.S.-DPRK meeting. The timing is very crucial. Now is in a stage of temporary suspension. On the other hand, Japan's ideas are different from those of other countries, so they have to be cautious when taking actions. As for Japan, we are very much looking forward to the realization of a Japan-DPRK summit after the "Trump-Kim Meeting."

**Fan Yongming:** Indeed, as you said, the kidnapping issue is a domestic problem, but once it involves the missile, it becomes an international one. Japan will also adopt a more determined attitude towards to these issues. Diplomacy is like a

card game where both sides hold a deck of cards. So regarding to a Japan-DPRK summit that you just mentioned, it is conceivable that Japan will provide economic support like the yen loan to North Korea to settle the historical issues. But, except the "economic card," what cards else is Japan's intention to play in regards to the North Korea?

**Kawamura Takeo:** The people of North Korea, like those of South Korea, are very dedicated and diligent. If we say the Japanese people benefit from social security and other systems to live a prosperous life, then it is necessary to provide assistance for North Korea to establish such social systems and regulations in addition to the monetary assistance. We hope that North Korea will become a more open society with government power being constrained. Although Japan has not taken action in this regard, it does have such plans and considerations. In addition, we may provide assistance in terms of agricultural technologies and fishery technologies.

**Fan Yongming:** North Korea has long been trapped in food shortage crisis. If Japan's rice production and processing technology can be used to address the food shortage problem that North Korea faces, it would be better for the Korean people.

**Kawamura Takeo:** Yes, so does the fishing industry. Recently, many North Korean shipwrecks have sailed to Japan due to food shortages. Indeed, fishing technology is just a field of strength of Japan.

**Fan Yongming:** I had once worked as a translator at the Overseas Fishery Cooperation Foundation under the Ministry of Agriculture, Forestry and Fisheries of Japan in the mid-1990s. I think North Korea must be very happy to see introduction of Japanese marine aquaculture technology. What is the South Korea strength in terms of fisheries?

**Kawamura Takeo:** Recently, many Korean fishing boats have entered the exclusive economic seas of Japan to cast fishing net, and even affected the normal operations of Japanese fishing boats. This shows that South Korea should also have the strength in this area. Although it is hard to say how much assistance and knowledge that South Korea had got from Japan in this regard, indeed there are many technologies such as fishing net weaving that had been introduced from Japan. Fisheries are indeed an area of strength for Japan.

**Fan Yongming:** South Korea and Japan are close neighbors and have very close exchanges. The influence of Korean elements, such as SoftBank, can also be seen everywhere in the economy. So will South Korea and Japan compete with each other in terms of North Korea policy?

**Kawamura Takeo:** There may be. This still depends to a large extent on the relationship between Japan and South Korea and what conditions Japan is willing to accept. Japan should realize that the Korean Peninsula will surely move to unification in the future. The unification of East Germany and West Germany has made the present Germany, which is also a good inspiration for the future of the Korean Peninsula. It is impossible for Japan to bypass South Korea to develop friendly relations with the North. Japan should cooperate with North Korea on the premise of maintaining Japan-ROK relations.

**Fan Yongming:** It seems we still have some time left. Can I ask you something about domestic issues of Japan?

**Kawamura Takeo:** Yes, Please.

**Fan Yongming:** As I myself am a Japanese researcher, I am concerned much



more about the political changes in Japan. According to the current situation, is it risky if Prime Minister Abe seeks reelection?

**Kawamura Takeo:** If you only look at media reports, it is easy to create such an impression that the public's trust in the entire political system has been shaken. Some people say that Prime Minister Abe seems to be hiding something and lying to the people. The opposition party is also chasing after these issues. Abe himself has said that he wants to drain out the political swamp and improve the political ecology. But what he is unbearable is the kinds of drawbacks are broken out on his side. According to the current development, it is true that the Prime Minister's wife has a deep friendship with the Moritomo Gakuen. But judging the words and deeds of the couple Yasunori Kagoike who have just been released from prison, it seems they are not like decent people. The pure prime minister's wife is probably involved innocently; it seems not that she had really done something unwanted. However, Prime Minister Abe is not completely ignorant of this matter.

**Fan Yongming:** Mm, he may still know something. The word "surmise" sounds very meaningful.

**Kawamura Takeo:** It should be true that the relevant officials of the Ministry of Finance had "surmised" Abe's intention, but on the other hand, officials themselves should also practice discretion in conduct. They should always know clearly what it's all about the land, and under what rules it can be sold. This development is probably a result of the officials' interpretation and judgment by judging the then milieu and atmosphere. I think Abe is not specifically involved. In addition, the problem with the Kake Gakuen is also that it is unfortunately coincident that the academy chairman and Prime Minister Abe were friends when they were in the United States. But this friendship makes things complicated. As none of the four counties in the Shikoku region has a veterinary school, for that I think has exposed the drawbacks of the

Ministry of Education, so to establish a Veterinary School in the region should have been a matter of course, a matter of time and a matter of spontaneity. When considering local development and vitality creation, it is just not surprising to adopt such a policy. However, unfortunately, it's just that the school chairman and the Prime Minister of Abe have a deep friendship, so we got officials to spontaneously "guess" the intention of Abe. Therefore, things get confused. I don't think this is a big problem.

**Fan Yongming:** So, you mean Prime Minister Abe is still likely to launch another election...

**Kawamura Takeo:** Yeah, I think so.

**Fan Yongming:** So, would a Fumio Kishida cabinet be given birth next year or the year later?

**Kawamura Takeo:** If Prime Minister Abe is re-elected, it is conceivable that Kishida should be a strong candidate for the next prime minister. We are also very interesting about what kind of contribution that Kishida will give in the Abe campaign. Now I want to talk about this thing.

**Fan Yongming:** On the other hand, Kishida himself shows very cautious, watching the political development and waiting for opportunity.

**Kawamura Takeo:** Now judging from the number of followers inside the Liberal Democratic Party, we see the most powerful one is Abe...

**Fan Yongming:** The former Futian faction has become a part of the current Abe faction, and now his number is the most?

**Kawamura Takeo:** Right. It is the undisputed dominance.

**Fan Yongming:** Then the next one is...

**Kawamura Takeo:** Aso (Taro Aso) is in the third place...

**Fan Yongming:** If Aso is in third place, then Kishida in second?

**Kawamura Takeo:** Kishida should be in a further backward place.

**Fan Yongming:** Then who is in the second place?

**Kawamura Takeo:** The second place is the Takeshita faction, which has been evolved from the original Tanaka faction. The Toshihiro Nikai faction is probably in fifth place. If the first, the third and the fifth will join together, half of the seats in the parliament will be assured.

**Fan Yongming:** So is it possible for an alliance between Nikai with Aso factions in the moment?

**Kawamura Takeo:** Of course, the Aso and the Nikai factions are now working closely together. I had been Chief Secretary of the Aso cabinet, so I can be counted as a member of the Aso Faction. The overall trend now is like this. The Secretary General Nikai is visiting Dalian. He will definitely publicize his support for Prime Minister Abe no matter where he goes.

**Fan Yongming:** Aso is very good at finance and other aspects, but when he

answered questions at the Congress...

**Kawamura Takeo:** He really has a bit of big mouth somehow. I've encountered such things many times while I was the chief cabinet officer of the Aso cabinet. So I don't get caught of any surprise. But if you listen to his complete speech, you will find that what he said is still reasonable. However, if it is taken out of context, he would be seen nonsense. When I was the chief secretary, I encountered two or three such occasions, but none of them is a major national event, nor will it develop into an international issue.

**Fan Yongming:** By the way, I do feel that the current politics in Japan seems to have returned to the late 1970s. At that time, the strongest opposition was the Socialist Party which has about a hundred of parliament members, and behind it were some small parties such as the Komeito Party. Now, among the opposition parties, the Constitutional Democratic Party is in the limelight. Can you tell us what do the people think about them?

**Kawamura Takeo:** Although the Komeito Party has convened dozens of people in the Parliament, its support among the nationals is only 1%. This can also help us know that the nationals do not have any expectations from the opposition parties. Although their speeches sounded full of momentum, the fact is that the opposition parties are scattered inside. Some of the more powerful parliamentarians stand for election without an affiliated party. Overall, there is no effective unity among the opposition parties.

**Fan Yongming:** So, can we say the Liberal Democratic Party is still in a good standing and doesn't have to worry about losing power?

**Kawamura Takeo:** But there had been power transitions between parties in Japan. It all depends on the party presidential election result. Whoever wins the presidential

election will be in power.

**Fan Yongming:** It is only the question of who is elected within the Liberal Democratic Party.

**Kawamura Takeo:** After the party candidate is determined, they will unite. This is also a tradition of the Liberal Democratic Party. In primary, they will not flinch. But when election results come out, they reunite.

**Fan Yongming:** Shinjiro Koizumi looks having high popularity for the next president of the Liberal Democratic Party. What do you think of him?

**Kawamura Takeo:** He is very popular among the people. In most national public opinion surveys, his support rate was second only to Shigeru Ishiba, and in some surveys, his support even exceeded Shigeru Ishiba.

**Fan Yongming:** But in my opinion, if Koizumi is selected to head the Democratic Party, I am afraid that his problems of ignorance and rave will emerge unavoidably.

**Kawamura Takeo:** He is still young after all, and he has no experience as a minister. The Liberal Democratic Party intends to let him assume posts in the cabinet in order for him to gradually amass political experiences and to train him to become the next party leader. What's more, in my opinion, he has inherited the advantages of his father Junichiro Koizumi. His speech is quite appropriate. Although he got whims sometimes as a youngster, he got no big problems in general. And he is excellent in leading and organizing. (TBC)

**Fan Yongming:** Could I ask you that how about your predecessor Shigeru Ishiba? He is still young. Does he have any intention to become prime minister?

**Kawamura Takeo:** He does have such an idea, and we all know that. However, he has only one small group of followers within the party, and his number and strength have stalled. This may be a difficulty he currently has to face. However, as long as he makes efforts and amasses political experience, it is presumed that his popularity will rise sooner or later. But now it seems that Koizumi's popularity is higher. If Koizumi joins hands with him and seriously seeks the opportunity, then the situation may change again.

**Fan Yongming:** I once thought that the current governor of Tokyo, Yuriko Koike, would cooperate with the Liberal Democratic Party to become Japan's first female prime minister. Is it still possible there?

**Kawamura Takeo:** It is completely gone. The party that was led by Yuriko Koike was now falling apart, and she was almost excluded from the list of hopefuls. Now Yuriko Koike is mainly focused on the government affairs of Tokyo, caring not too much about the national politics.

**Fan Yongming:** But after all, Yukio Edano and other such guys () were originally members of the Liberal Democratic Party.

**Kawamura Takeo:** It used to be the case. But Yukio Edano is a bit different case.

**Fan Yongming:** There are many leaders in the Constitutional Democratic Party who were originally leaders of the Liberal Democratic Party. It would not be completely impossible for it to be annexed again by the Liberal Democratic Party.

**Kawamura Takeo:** That is unlikely. Japan adopted a small constituency system. Originally the intention was to avoid huge political turmoil caused by the power transition between two major political parties like the United States. The people can safely choose national leaders they favor based on policy agenda of the parties. Unfortunately, in my 28 years of political experience, the regime has changed twice.

**Fan Yongming:** Kiichi Miyazawa in 1994 and Yukio Hatoyama in 2009, right?

**Kawamura Takeo:** Both times happened at the time when the Liberal Democratic Party split so the elections were defeated. So if the opposition party wants to win, they have to unite to reach an agreement before election. This may be the only way out for the opposition party.

**Fan Yongming:** According to the current situation, it is uneasy for them to unite. (laughs) Thank you today for the interview for chatting with me for so long during your busy schedule. What is your expectation or message for the Shanghai Forum?

**Kawamura Takeo:** This is the first time I attend the Shanghai Forum and I deeply felt that the forum has a global perspective. (In addition to that China and Japan are the world's second and third largest economies,) South Korea's economic strength is also ranked 11th in the world, so China, Japan and South Korea should make greater contributions to peace in Asia and the world. Seeing the delegates today and various local mechanisms, I feel that Japan should pay more attention to the Shanghai Forum. Many Japanese companies in Shanghai have attended the forum. So is it possible for Japanese companies to become sponsors of the forum? I think this model is worth looking forward to. If the forum can play the role to champion something and give guidance, then I think Japan will be able to play a more proactive role in the forum. And I would get deeply involved to understand the forum's issues related to Japan, and

do my best to provide cooperation and assistance. If Japan can participate more, then I believe that the dialogue and exchanges of the Shanghai Forum will certainly become more heated.

**Fan Yongming:** Thank you very much for accepting our interview. We will also continue to work in this direction to expand the scope of exchanges and cooperation with Japan. Take care and see you soon.



# The New Development Theory and Exchange Rate

Editor: Yu Huiyan

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**Luiz Carlos Bresser- Pereira**  
Former Minister of Finance of Brazil



Interviewer: **Sergio Suchodolski**  
Director General, Strategy and Partnerships  
of New Development Bank (NDB)

*We need a new theory, especially we need a macroeconomics because the current macroeconomics is oriented to rich countries not developing countries. To avoid the new developmental trap, one country should jump out of credit contests.*

**Sergio Suchodolski:** Welcome to Shanghai Forum 2018. I'm Sergio Suchodolski, the director general for strategy and partnerships of the New Development Bank. And today we have the former finance minister, former minister of science and technology and also former minister of administrative reform from Brazil, Professor Luiz Carlos Bresser- Pereira. Such an honor to have you with us today.

**Luiz Carlos Bresser- Pereira:** It's pleasant to be here. Thank you.

**Sergio Suchodolski:** So Professor, yesterday we heard your two speeches proposed on the roundtable and also at the opening session of the Shanghai

Forum. You had a peculiar emphasis regarding local currency lending. You are an advocate of local currency lending from multilateral development banks. I understand that from your experience as a finance minister in the 80s, you were able to deal directly with external debt crisis like in Latin American countries, the Brady negotiations, the insurance, the Brady bonds. Could you tell us a little bit about that historical context? And also you're advocating for this kind of instrument.

**Luiz Carlos Bresser- Pereira:** In 80s, we have a miserable financial crisis, which took more than ten years to be solved. And so in this decade, Brazil's was stagnant. Brazil was an economy that between 1960 and 1980 was growing very fast. The only country that was growing a little higher stronger than Brazil was Japan. With this financial crisis. We stopped it. And why this financial crisis? Because we wanted that in foreign money. In the second part of the 1970s, there was the first oil shock. All countries decided then to adjust. And the Brazilian government said No. I am not going to... just to have gone very fast. We had a model, and so we were going to compensate the problems with foreign money. And the results were not good for Brazil at all. The argument at that time was that once the country base interest rate that ... What's different? That's making the investment make it long invest. we're seems reasonable, but it's false. Internal return on investment of the form is bigger than interest rate? This is OK. It seems reasonable, but it was false. Because it was a macro reason. If it was the only point of view of the firm, it would be okay, but they have only the risk of the exchange rate risk. But on the point of view of the country, the situation was completely different. Because what is important is so low, what will happen with the exchange rate? And what we know is that if the country decides to grow as foreign savings, that is if they can't decide, what is very common in most parts of the world, except in East Asia, to grow credits. You're deciding to appreciate your currency. Because to finance these debts, you're going to meet capital inflows. And this capital inflows will be permanently bigger than the capital outflows by this deficit. The exchange rate will be permanently overvalued.

Excess supply of dollars. And this is very bad for the country, because in this situation, the manufacturing industry stagnates rules competitively, although using a good technology.

**Sergio Suchodolski:** That's very interesting. We also see in recent years, the creation. First emergency, the emergence of middle income countries, and the emerging markets, the BRICS, the special space in the world. These countries have in the past ten years surpassed in term of the size of economies of the 7 countries we discussed yesterday on the roundtable. And they've been pushing together for reforms in order and international organizations especially IMF, World Bank, being able to completely fulfill the design, their shareholding and corresponding to the size of their economies, and to the interests to build institutions that reflect their necessity. They decided to create the new institutions and we see the appearance of the new development bank in Shanghai and the infrastructure bank in Beijing. How do you see the creation of these institutions and their future? And I ask you from three perspectives which correspond to the portfolios you held in the past. So for administrative point of view and from innovative point of view, from technology and from financial and economic view.

**Luiz Carlos Bresser- Pereira:** Well, look, growth depends on investment. And investment depends on finance. The different areas of the firms that invest can't automatically in box to invest, they must have financed it. And so the banks, the domestic banks or the international ones, the fundamental role in making this max. If the country does not have credits as ideal, these loans can be made in domestic currency. And also they can make the loans in foreign currency. But in this case, since the country has no credit debts because of the policy... If this is true, demanding that enters, it will go out in direct investments that the country makes abroad or in the increasing reserves that he decides to have. This is what China does. China receives a lot of foreign direct investments, but there's a current account surplus. All that money that comes move out.

This is only economic and financial point of view. Technological point of view is, for instance, a discussion about the fact that the productivity of the manufacturing industry has for, that's true. Because the business formats as most of international corporations are not competent. Why they are not investing? Because they exchange rate is not competitive to be appreciated. So with this, this is I call this the new developmental trap. This is a trap with the Brazilian economy is inside. I see what you should do. I know that Brazil is very different from China. That is what we should look to China. This East Asian country doesn't follow credit contests.

**Sergio Suchodolski:** So talking about that, yesterday in your speech, you talked a little bit about your formative years where you were very influenced by the first wave of development and you made direct reference to one of the founders of UN conference of trade and development and collaborates with the economic commission in Latin America. Could you could you tell us a little bit about the new development theory?

**Luiz Carlos Bresser- Pereira:** Responding to previous questions. Look ! I call it classical development of this and the basic idea. It was a theory that whose basic argument was that countries to develop must industrialize and to industrialize, the state must develop moderately, but effectively too, to push this industrialization. This was opposition against the neoclassical orthodoxy. Well, this moment between the 50s and the 60s, already in 60s and 70s, it was not new contributions. This is the change. You know what the United States and Europe to their liberalism. And the World Bank wasn't the bank that was associated with the classical and does the development bent on it. Development was almost forgotten. And I realize and the new mainstream they said that they will promoting growth and happiness everywhere was the reform. Obviously, this was false. It was clear that we need a new theory, especially we need a macroeconomics because the current macroeconomics is oriented to rich countries not developing countries.

Another thing very special is that invest in Latin America, also in Africa, East Asia, the countries have a thing called the Dutch disease, and it was important that overvaluation of exchange rate caused by exports of commodities. So there are several reasons for this. And then they began to develop these ideas. And one thing very interesting is that we focus on the five macroeconomic prices. They are the exchange rate, the interest rate, wage rate, the inflation rate and the profit rate. And they must be right. And the market does not make them right. So you have to manage them. This is very new. This theory is in favor of industrial policy, but it believes that macroeconomics is more important than industrial policy. When we look countries like South Korea or like China, we realize that the industrial policy was important choice. But before that, this five macroeconomic prices were always right. Why? Because the government was a developed government and so was keeping managing this price right, especially the exchange rate. That must make competitive and makes the firms use technology into our state. If you leave the prices free, the macroeconomic prices, this grows foreign savings. These two things appreciate the currency.

From administrative and government point of view, how should government go in order to manage this kind of policies? The existence of central banks is because countries know they have to manage their interest rate and the inflation rate, the wage rate normally constraint to management. So what you really need is to manage the exchange rate. You must have a commission in the government that's responsible for this. There is a commission that is responsible for defining policies and the central bank. It should have a different commission. Similar but different to define the exchange rate policy. And central bank again, is it good to do in this matter? But in this exchange rate policy, the three things are important. First, you have to neutralize the Dutch disease. And you do that by using the export tax that varies according to the international price of the commodity. Second, you have to reject the idea: Growth is savings. Growth is current account deficits. We should not have these because current deficits means more currency. And third, you should have capital control. Capital control is not the most important, is the third importance, but it's also necessary. With these three things, I think that the country is able to manage the exchange rate. That's fine. So then they invest in

the kind of growth. Because growth depends on investment. When you have the exchange rate in this situation, it depends on the exchange rate.

**Sergio Suchodolski:** Aren't you afraid of a shadow market? And my question ties also to one of the participants of roundtable, who proposed a paper on shadow banking, particular case of China. Aren't you afraid that your proposal might create a shadow market for foreign exchange as worse? How do we tackle that problem?

**Luiz Carlos Bresser- Pereira:** I am not proposing to fix the exchange rate. The exchange rate continues to be floating. What I'm proposing is to have this tax. That has an effect on the supply of the dollars. To There's no reason for a black market, but the black market typically emerge when you have a fixed exchange rate. Because then there is a fixed rate.

**Sergio Suchodolski:** And just to finalize, we have many students watching us through this video from Fudan University. We just had this very international event. We have many students coming to China to study or to work. In terms of innovative ideas, what messages do you want to give to students and young professionals?

**Luiz Carlos Bresser- Pereira:** I think that they should study new development theory. I had a big site internet with all my works on. Both of them are in English. So nothing is Chinese for the funny moment. So the students will be welcomed to come to my site and see the library of diversity to have my books.

**Sergio Suchodolski:** Just to finalize, how has been your experience with the event that in China? What are your take-away when you're going back to Brazil? What are the main take-away?

**Luiz Carlos Bresser- Pereira:** My stay here could not be better. Very well-treated by everyone. For me, it is a really success that the contribution from Fudan University is giving to China and to the other countries that participate in the roundtable. I think it works very well. So I'm happy and going back tomorrow, but very happy for me too.

**Sergio Suchodolski:** Thank you! Thank you so much! Thank you for your interview!

## Role of infrastructure in regional cooperation and integration

Editor: Zhong Xueying



**Naoyuki Yoshino**

Dean & CEO, Asian Development Bank Institute (ADBI) and  
Professor Emeritus, Keio University, Japan

Good infrastructure can create huge spillover effects in the region around a project, which can promote regional cooperation and integration. The demand for infrastructure in the Asia and Pacific region is great. To better finance infrastructure, multilateral development banks should make joint effort, and private investment should be attracted by returning spillover tax revenue to investors and clarifying the risk-sharing between public and private sectors.

**Reporter:** In Asian Economic integration report 2017 published by Asian Development Bank (ADB), six indexes are proposed to evaluate Regional Cooperation and Integration (RCI), for example, trade and investment, money and finance, infrastructure and connectivity, movement of people. In your opinion, which dimension is of the most important for RCI?

**Naoyuki Yoshino:** All of them are important, but the most important one is infrastructure. Poor infrastructure slows economic growth and limits the investment needed to create the jobs that help lift people out of poverty. Oppositely, good infrastructure creates huge spillover effects in the region around a project. Railway, for example, can facilitate movement of people, bring manufacturing factories into the region by making the shipping of products faster and safer. It can connect manufacturers



and agricultural farmers to markets and to ports. Small and medium enterprises (SMEs) can be developed and new industry can create jobs in the region, promoting employment. Eventually, service sector businesses such as restaurants and hotels will be constructed to meet the increased demand in the region. Farmers and small businesses can sell their products at the train stations and there will be money flow and increase of property tax revenue. Good infrastructure creates huge spillover effects in the region around a project, and it can promote regional connectivity not only within one country but with countries all along the road, so that it can promote regional cooperation and integration especially when it's a cross-border one.

**Reporter:** Supporting RCI in Asia and the Pacific is one of ADB's key strategic priorities. Briefly speaking, what actions have ADB taken to support RCI in Asia and the Pacific?

**Naoyuki Yoshino:** RCI plays a critical role in accelerating economic growth, reducing poverty and economic disparity, raising productivity and employment, and strengthening institutions. It narrows development gaps between ADB's developing member countries (DMCs) by building closer trade integration, intraregional supply chains, and stronger financial links, enabling slow-moving economies to speed their own expansion. Bringing Asia and the Pacific together through projects that promote regional cooperation and integration has been a cornerstone of ADB's work since it was created.

In 2006, ADB adopted a RCI strategy, which is anchored on four pillars. The most important one is to support regional and sub-regional economic cooperation programs on cross-border infrastructure and related software. Firstly, ADB is providing money for hard infrastructure. The fruits of those efforts can be seen in roads, bridges and power plants. Secondly, financing for soft infrastructure, for example, education. One of my previous study has shown that secondary education and university education show significant impact on GDP growth in the region. Good educational opportunities together with infrastructure investment create qualified workers who enhance regional productivity. Thirdly, ADB provides technical assistance. For example, Vietnam and Cambodia are going to start deposit insurance system to protect bank depositors from

losses caused by a bank's inability to pay its debts, but they didn't have such system in the past and had no experience. In this situation, ADB can give them knowledge support to establish one.

Besides that, the other three ADB RCI strategy include trade and investment cooperation and integration, monetary and financial cooperation and integration and cooperation in regional public goods.

**Reporter:** China has initiated Asian Infrastructure Investment Bank (AIIB), which is also a multilateral development bank that aims to support the building of infrastructure in Asia and the Pacific region. How do you think of the relationship between ADB and AIIB, will they be competitor?

**Naoyuki Yoshino:** They are definitely not competitor. Vast amount of infrastructure investment is needed in Asia for power, transport, telecommunications, water and sanitation. The demand for long-term investment is crucial to meet the challenges associated with urbanization, aging population and climate change. In Southeast Asia, 8 billion USD is implemented as infrastructure investment every year. However, it is expected that 40 billion USD infrastructure investment is needed every year. ADB can't support all the money, and so does AIIB.

There are many opportunities for us to cooperate and also with World Bank and other multilateral development banks in sectors like transport and energy. It's not competitive and we can work together to better promote the construction of infrastructure. There have been four co-financing projects between AIIB and ADB, a natural gas infrastructure and efficiency improvement Project in Bangladesh, a highway project in Pakistan, a road project in Georgia, and a power transmission network project in India. For example, in Pakistan, there is a National Motorway M-4 Project which will construct 64 km motorway linking Shorkot to Khanewal in Punjab province, which has strategic value to Pakistan as it supports north-south connectivity, new trade, and business opportunities. The total project cost is estimated at 273 million USD and we jointly fund it. Also, since two banks share a lot of common interests in the region, we can exchange ideas, experiences and knowledge in many fronts.

**Reporter:** You mentioned in your speech that though there is public money from development banks and governments, it is still insufficient to satisfy Asia's infrastructure needs. Under these circumstances, what role can private funds play in financing infrastructure?

**Naoyuki Yoshino:** In many developing countries in Asia, highways, trains and various modes of public transport are still lacking. Many of them face a shortage of public funds to meet their huge infrastructure needs. In order to narrow the gap between investment needs and actual government disbursements, the private funds have to be injected in infrastructure investment.

In addition, utilizing private funds to develop infrastructure has other advantage. If investment all comes from government, it won't care about how fast the construction is. But if private investors come in, who is cost-sensitive, they will increase pressure to shorten the period of construction so as to complete the project at minimal construction cost, and operate the project profitably at low cost after completion. In recent years, Public-Private partnerships (PPPs), including the use of private funds, are being emphasized.

**Reporter:** However, the progress of attracting private funds into infrastructure investment is not that smooth. In your opinions, why private investors are reluctant or hesitant to invest in infrastructure? How can we solve the problem?

**Naoyuki Yoshino:** There are mainly two considerations behind. On the one hand, they are worried about the risks in infrastructure projects, including (1) political risk: regime change in local administration may cause stoppages before project completion; (2) construction risk: extensions in construction period or delays in land acquisition due to complicated ownership structure may create additional expense; (3) exchange risk which appears if finance comes from overseas; (4) unexpected decreases in revenue due to fee setting and decreased traffic; (5) unanticipated expenses, for example when

compensation is required for noise occurring after the completion of an infrastructure project

On the other hand, though risks associated with infrastructure projects are high and the expected rate of return is usually low. As I mentioned before, the spillover effects of infrastructure investment will increase revenues from corporate, income, sales and property taxes. In the past, however, all these tax revenues were collected by the government and not returned to the investors as budget subsidy in infrastructure. Actually, why most Public-Private partnerships (PPP) projects were disappointing is that the rate of return on infrastructure depends mainly on user charges, such as train fares and highway tolls, which is definitely lower than total cost.

Private investors want to avoid possible risks and earn benefits. However, current situation of risk and benefit is totally opposite. To attract more private funds, firstly, it is essential to clarify the risk-sharing between public and private sectors in advance. Otherwise, the risks associated with infrastructure will make private investors hesitant to put their money in infrastructure.

Secondly, spillover tax revenue should be returned to infrastructure investors. Infrastructure investment projects require long-term and patient investors. If the rate of return on infrastructure can be increased by injecting spillover tax revenues generated in areas surrounding infrastructure investments, much more long-term private capital could be forthcoming for infrastructure investment.

The economics professor has used a method called the difference-in-difference to compute the effect of spill over on tax revenue in places where infrastructure investment occurred compared to ones where no infrastructure investment took place. It has been estimated that returning a part of the additional tax revenue to the construction companies and investors would raise the rate of return on infrastructure investments by 33 percent to 40 percent in case of Japan and by 14 percent to 16 percent in case of Uzbekistan. If the businesses do better, the rate of return will be much better. Then it will become attractive for the private sector. Oppositely, for projects whose only return comes from user charges, the rate of return is quite low and private investors may not willing to come.

Public money is insufficient to satisfy Asia's infrastructure needs, so it is quite important to attract private investors into infrastructure by increasing the rate of return on infrastructure investment and clarifying the risk-sharing between public and private sectors.

**Reporter:** If invested by public fund, infrastructure is more like a public good which is available for all the people at a reasonable cost or free of charge. But when private money is injected, will this characteristic be changed? What do you think of the ideal proportion of public fund and private fund?

**Naoyuki Yoshino:** My idea of spillover effect doesn't mean that user price should be increased. Oppositely, government should regulate important infrastructure prices such as water and electricity, because they are user charge. User charge can be low, but spillover tax revenue can compensate for that. For example, with good water and electricity supply, the region will be developed, new department will come in and economic growth will be accelerated, productivity and employment will be raised. With good transportation system, as poorer countries' economies become more integrated with those of their richer neighbors, they have more opportunity to boost their growth potential and speed their expansion, which will bring about increased tax revenue. So, I am not talking about conflict between public and private. Public side price should be low because everyone need to drink water, and benefits that private side needs can be got because of the raise of tax revenue generated by good infrastructure.

In terms of proportion of public and private money, it will be different due to different sector and will change with time. When the expected profit is not so high or it is risky and private investors are reluctant to invest, government should put more money. For example, government can first invest 60%, and private side offers 40%. But if the profit becomes better and better, more private investors will be willing to put in their money, and the proportion may be changed. Oppositely, for those populated and developed area, many companies are interested to invest in, then the proportion can be 80% from private and 20% from government. So, there is no definite number, but depends on future expectation.

**Reporter:** In terms of infrastructure investors, your previous speech have also mentioned bank loans, insurance, pension funds and revenue bonds. Can you illustrate more about these concepts as well as the difference and relationship between them?

**Naoyuki Yoshino:** We can distinguish investors into infrastructure as (i) bank loans, (ii) insurance, (iii) pension funds, (iv) revenue bonds, and (v) equities.

Bank loans are relatively short, ranging from 1 year to around 5 years, so it will target short term infrastructure needs. It can provide finance for safer projects such as brown field where infrastructure has existed. Insurance companies are looking for long term instruments such as 20 years and 30 years. It can finance long term project in populated regions, since economic performance sometimes relies on population density and future expected growth of the population will give higher spillover effects. Pension funds are looking for 20-40 years of investment. It can target long term infrastructure investment where higher growth is expected. If the rate of return on infrastructure were raised by internalizing spillover tax revenues, banks, insurance and pension funds are glad to invest into infrastructure.

Infrastructure such as railways and highways can also be financed by issuing revenue bonds. The company should promise the local government to return 50% of increased tax revenues such as property tax, corporate tax, income tax, sales tax etc. The rate of interest paid by the infrastructure company will fluctuate based on the U.S. charges and increase of tax revenues, in another word, the performance of the infrastructure project. If the region along the railway develops well, the rate of return on infrastructure bond will rise. Infrastructure revenue bond can be purchased by both private investors and government, and it makes both private investors and government share the rate of return and risks equally based on the amount of infrastructure bonds they purchase, which is quite transparent.

**Reporter:** Your speech topic is about role of infrastructure investment for

regional development by connecting East and the West. Can you illustrate more about how infrastructure investment can promote cooperation between East and West?

**Naoyuki Yoshino:** In the past, the Silk Road connected the West and East. Nowadays, many goods are transported through ship or by air, but we should not forget land transportation. For example, railway can also carry huge amount of product and it can also reduce transportation cost between West and East. Tourism can also be boosted if this transportation can be operated smoothly. So I think the Belt and Road Initiative (BRI) is a good example of infrastructure investment that connects East and West. It's the physical dimension of connection between East and West.

Also, there can be sharing of experience between East and West concerning infrastructure. Europe has a good railway system, and China is also devoted to developing high-speed rail in Asia. For China, if European system has some superiority, then it can be introduced. Meanwhile, if China generates better skill and technology, European system may also learn from it.

What's more, there has been cooperation between East and West in construction of infrastructure. For example, European Bank for Reconstruction and Development (EBRD) and AIIB are cooperating in infrastructure construction in Central Asia. Again, the demand for infrastructure is great, and nor could WB, ADB, AIIB, EBRD fulfil it alone, and it is of joint interest to carry out cooperation between East and West.

**Reporter:** For Japan, China and South Korea, whose infrastructure seems to have been relatively well constructed, are infrastructure still important for their cooperation and integration?

**Naoyuki Yoshino:** Still, there are opportunities for them to cooperate in infrastructure within these three countries and in other Asian countries. But I think the most important thing for East Asia integration is cultural exchange. In the past, China, Japan and South

Korea used to look at different directions respectively. Even we all want to cooperate with the EU, the situation is that Japan is talking with EU, China is talking with EU and South Korea is talking with EU. The EU is always there as a unified community, and it is also important for East Asian countries to form a coalition to talk with EU. We should cooperate more just as EU does, so that we will be much stronger.

We can learn from France and Germany. There have been many wars between them throughout the history, but they have exchanged high school students for many years. I think student exchange among China, Japan and South Korea is also important so that our young generation can understand our own culture. Also, there should be continuous exchange. These students can continue their communication with each other through skype or WeChat for example one hour each week, which will lead to better exchange of ideas. It is of great important for RCI in East Asia.

**Reporter:** 2019 will witness the 20th anniversary of the launch of China-Japan-South Korea cooperation. In terms of economy and trade, the negotiation on trilateral Free Trade Agreement (FTA) began in 2012, but progress is still limited. What do you think of the difficulty in economic cooperation in East Asia?

**Naoyuki Yoshino:** Free trade is good as long as labor motility is free, exchange rate is free, and everything is free. However, in reality, it is not. For example, in Chinese case, there is still capital control, and exchange rate is gradually moving rather than market-oriented. Secondly, sector by sector, development speed is totally different. In finance sector, it's easy to change from one product to another, and there can be a very quick adjustment. But in agriculture, farmers can't change their products immediately, and it may take three to five years. So if we start free trade today, all the farmers will complain.

These two dimensions explain why theory says free trade is good because everything moves quickly, but in reality it's not and it takes time. There are winners and losers, we must pay attention to losers, or in another word, weak sectors, which is very important for FTA.



**Reporter:** As theme interpretation says, the pullback of the U.S. and revival of protectionist economic policies have raising severe challenges to globalization. In your opinion, is it possible for EU and East Asian countries to form a joint effort in global governance?

**Naoyuki Yoshino:** Yes, I think so. the U.S. used to be the operator of free trade, but nowadays, there are many trade unions, labor unions, which is also the reason why its attitude has totally changed. As I mentioned before, free trade is good but there are losers. Loser part now accounts for a large amount in the U.S. today, so Trump has changed its attitude. However, in general, free trade and free trade mobility can create better situation, so without the U.S., East Asian and EU countries should continue their effort. The only thing we must remember is that, losers must be compensated. For example, if farmers who have cultivated rice for decades find that rice price falls all of a sudden, they will complain. There must be gradual adjustment of market and we must show that even losers will have better chance in the future, which is very important.

## China-Ethiopia Relations Beyond Economic Cooperation

Reporter: TANG Yinuo



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### **Berhane Gebre-Christos**

Ambassador Extraordinary and Plenipotentiary of the Federal Democratic Republic of Ethiopia to China. He served as the Minister of Foreign Affairs of Ethiopia from 2010 to 2012. He was also the Foreign Spokesperson for the Tigrayan People's Liberation Front (TPLF) from 1979 to 1988.

*Ethiopia's focus on infrastructure has created numerous opportunities for Chinese construction firms. Ethiopia is also a significant market for Chinese exports that will expand as Ethiopia's rapid economic growth continues. For Ethiopia, Chinese finance provides critical support for the government's legitimacy, as electricity, transport, and employment opportunities continue to expand, stimulating economic growth and helping promote exports to other countries. China's "business is business" approach is welcome by comparison to western aid providers who often link their contributions to changes in the Ethiopian legal and political structure.*

**Reporter:** Are there anything that may be special to you about the relationship between Ethiopia and China?

**Berhane Gebre-Christos:** The issue about China and Africa relations is interesting. People from different places got more extensive knowledge about China and Africa relations. Ethiopia, located in the Horn of Africa, is its gateway to Africa. China has

been working to enhance its bilateral ties with Ethiopia for many years. Ethiopia is also among China's comprehensive strategic cooperation partners in several sectors including the "Belt and Road" initiative. Using our age-old relations, Ethiopia and China has already developed strong win-win situations. The relations between Ethiopia and China have reached to the optimum level.

**Reporter:** As the newly-appointed Ambassador to China, what you are currently focusing on and what you are mainly working on to strengthen your country's strategic relationship with China?

**Berhane Gebre-Christos:** First of all, I am focusing “roundly relationship”. In here, even there have been extremely strong relationship, I still want to strengthen the understanding to the different government. Secondly and more importantly, I am trying to make economic benefit between China and Africa. Explain the strong relationship to those companies built abroad in Africa and China and tell them the benefit. All the companies that have business across will develop. Thirdly, I am focusing on education.

**Reporter:** Do you not only focus on financial and economic development, but also something about education?

**Berhane Gebre-Christos:** Yes. We have been undertaking cultural relationship, organizing Chinese culture and explain it to each other, and interviewed by Chinese media. Chinese public will know more about us by doing these, and I am trying in multiple areas.

**Reporter:** In terms of relationship between China and Africa, it there something special of this country? Why they are so important to each other?

**Berhane Gebre-Christos:** The relationship is really strong. First of all, our development is closed to China, economic increase about 10 percent. Secondly, with the corporation, China designed the structure and we have many corporations about industry. The strategically relationship is so strong in terms of society, economic, education and peace and security. This is all-rounded corporation. Ethiopia's focus on infrastructure has created numerous opportunities for Chinese construction firms. Ethiopia is also a significant market for Chinese exports that will expand as Ethiopia's rapid economic growth continues. For Ethiopia, Chinese finance provides critical support for the government's legitimacy, as electricity, transport, and employment opportunities continue to expand, stimulating economic growth and helping promote exports to other countries. China's "business is business" approach is welcome by comparison to western aid providers who often link their contributions to changes in the Ethiopian legal and political structure.

**Reporter:** Today, in the second decade of 21st century, what is the improvement and achievement in areas of further boosting the bilateral cooperation of the two countries, and what are the obstacles of pushing it to an advanced echelon?

**Berhane Gebre-Christos:** First of all, there is good understanding between China and Ethiopia. Secondly, it has strong relation, so the relationship will be developing with right direction. We have defined to be strategically relationship, they are comprehensive partnership. It is strong relationship that we can evolve and grow to higher level. It is very good relationship because of mutual respect, virtual help.

**Reporter:** What do you think about the roles played by Chinese private sectors in boosting local industrialization in Ethiopia and what measures will the government take to help them facing these difficulties?

**Berhane Gebre-Christos:** Chinese companies are welcome there. People are welcome to Chinese companies and tourists. Secondly, the investment has been increasing in Ethiopia. Looking to last year, investment increased from 2.2 billion dollars to 4.4 billion dollars, and among them, 90% of them are from manufacture. That means that the condition in Ethiopia is really good for investment. I believe government will support, and we reform all the time to take out all of the difficulties.

**Reporter:** There are European companies over there, is there something wrong working with both of the states together?

**Berhane Gebre-Christos:** No, it is not the problem. There is lots of investment from all over the world, and they are really harmony and sometimes support each other. Some of the products are produced will sent to all over the world, which may from corporation.

**Reporter:** Are there many companies jointly supported by Ethiopia and China together?

**Berhane Gebre-Christos:** Yes. Companies from China and Ethiopia work together and support each other.

**Reporter:** Facing the rising call of Africa's development aspirations, what is China's potential that will change our perspectives about Ethiopia-China cooperation?

**Berhane Gebre-Christos:** There are continuous political activities taking place. In terms of culture, China shows the culture to Ethiopia by social media, and so did Ethiopia. It is a political kind of exchange of culture to make a better understanding. Economically, we have been working together to build higher investment. The fly line

in Ethiopia have flired to 5 cities over China, and so did the China, flies the plane to Ethiopia. So there has been lots of economic interaction between them, and the economy ties between us will grow. In peace and security, we have peace keepers and support each other. So the relation is comprehensive, it is political, social, economic.

**Reporter:** To give us a better understanding, would you please share with us your thought about how other African countries can learn from the China-Ethiopia pattern?

**Berhane Gebre-Christos:** Relationship is based on mutual respect and mutual benefit. That's one. Secondly, Ethiopia is directly benefited from the corporation. There has been light sys and roads built for economic. So this is a win-win.

**Reporter:** Would you like to illustrate your understanding of this problem based on the practice of African countries?

**Berhane Gebre-Christos:** We have marked that how Ethiopia needs to develop. So we have to transform the economy, culture into industry. We have to build infrastructures. We have millions of students and 50 private universities, and 100 public universities. So we have to design all the things independently.

**Reporter:** What do you think about the role taken by Ethiopia in Africa union?

**Berhane Gebre-Christos:** Ethiopia is an active African union, African unions headquarter is in Ethiopia, we host the African union. Ethiopia is a royal member, whatever the African union is decided. Ethiopia is very active on issue of security and peacekeeping on this continent. Ethiopia is the NO.1 in terms of peacekeeping in Africa. To the African union, but even in the world, Ethiopia Contributes the most number of

peacekeepers to the united nation as well as to the African union, so Ethiopia is playing a sword, fulfilling its responsibility, for peace and security in Africa. Ethiopia has been contributing as much as possible and interest of the continent and trying to have a common voice and a common understand on global issues. So that Africa would have a common voice, stands and position.

**Reporter:** What do you think Ethiopia could do to make more African people understand and familiar that China is their friend and always willing to help?

**Berhane Gebre-Christos:** This help is not growing, Chinese and African industries are not new one. China-Africa relations act to the mid 50 when African people fight for their independence. China was supporting the independence as friends of African people. China just needs to maintain it.

**Reporter:** What are your suggestions on promoting South-South cooperation?

**Berhane Gebre-Christos:** I can say, the forum, the forum between china and Africa has been key instrument in south-south cooperation. The same point has been mentioned in the programs that have significant meaning to the cooperation within the Africa and china. So, that, the "Ten plan action" has to be upgraded in the coming forum. I think the main instrument in Africa-china relations is china south-south cooperation.

**Reporter:** Please use three words to describe the most important features that effective international development cooperation should have.

**Berhane Gebre-Christos:** I think they should focus on overcoming problems, shortcoming and the development of non-nations. First of all, they have to focus on

millions of structures. Secondly, they have to pay attention to production capacity. Thirdly, they have to focus on inner agriculture. So I would say **infrastructure**, **industrialization** and **agriculture**. I think these are the three feathers.

**Reporter:** Please tell us your understanding of the significance of our topic “China-Africa Relations Towards Shared Prosperity”?

**Berhane Gebre-Christos:** When they have to prosperity the world, people dissent life and the same time, people deserve what they have and leave the life of the condition to a better one. That’s means we have to handle the planet very responsively. In this case, I think the governments have this international ability, addressing the climate change, the sustainable SDG, the sustainable development. I think the cooperation between china and Ethiopia, between the china and Africa is innerving. I think all countries should contribute to the realization of this international issue. I think that would give us world feel difficult, a world that’s leave over, but the world that will benefit coming generations. So, it’s really important to have the collaboration between nations of the world.

**Reporter:** What is the role taken by Ethiopia now in fighting for SDGs about sustainable development goals?

**Berhane Gebre-Christos:** Well, the problem we have in Ethiopia is to create a country where policy independent, a country where people live decent life, that’s where the sustainable development is grows. So all the programs were been used, fulfilling all the programs, all strategy, all policy, and implementing the world we have set five years ago. So, developing these programs, strategy, all plans and policy completely immerse us to fulfill the SDG program. So we have effectively implementing the sustainable development programs.



# The Sustainability of Chinese Economy and the Challenges of Chinese Investment in Africa

Reporter: Peng Siyue



## Jonathan Woetzel

Dr. Jonathan Woetzel is Director of the McKinsey Global Institute and Senior Partner with McKinsey & Company based in Shanghai. He leads research on China, Asia, and global economic and business trends. He helps cities and regions create sustainable growth and supports the transformation of Chinese companies into global leaders.

Development is the trend of the world today, and the sustainability of Chinese economy has an important impact on China and the world. China has made achievements in development issues such as urbanization and artificial intelligence, but at the same time there are many problems. In addition, the challenges encountered by China in the process of investing in Africa require the cooperation of investors, think tanks and the government to overcome.

**Reporter:** The urban population is rapidly growing and concerning environment issues have been rising. Could you please talk about the urbanization challenges that China is facing now? What's your projection of the near future – has sufficient progress being made or pollution is still the necessary compromise needed to be made for maintaining the current level of economic growth?

**Jonathan Woetzel:** China is learning from environmental damage in the past. The new urbanization plan taken effect in 2014 was designed to clean up China, to lower PM2.5, to increase fuel standards, to have more green space in the city, to improve the water

treatment etc. However, it is also important to note that it is expensive to fix the environmental issues that have existed for decades. Lake Taihu is an example of the challenge.

The leadership understands the necessity to continuously improve the current environment, and according to the data available, positive progress has been made every year. Overall, China is on the right track, but the nature of the market economy results in some unintentional challenges with policy implementation. For instance, smaller manufacturers that do not have scale are subject to more pressure because the cost to follow the environmental regulations are higher. Therefore, they have stronger incentives to cut corners, such as not installing the latest equipment, dumping garbage etc. It comes down to the government's enforcement – make sure the information is available and clear, and monitor, verify and inspect the policy implementation. Prioritizing the most urgent tasks is important. The principle is to target the worst issues first, for instance, water quality, land and garbage treatment, disposal of heavy metals, and poisonous air quality.

**Reporter:** As the co-chair of the Urban China Initiative (a joint venture of Tsinghua University and McKinsey) that aims to develop and implement solutions to China's urbanization challenges), you collectively introduced the Urban Sustainability Index (reflecting on urban sustainability via five primary dimensions of basic needs, resource efficiency, environmental health, built environment, commitment to sustainability) – what are the strength and weakness of the Index?

**Jonathan Woetzel:** The Urban Sustainability Index measures the quality of the economic development. The factors incorporated in the Index need to be compared against economic development, such as GDP per capita. It reflects how much social and environment benefit a region is achieving, better or worse, for a given amount of economic development. The indicator hopefully reflects the benefits via multiple dimensions. The Index defines benefits as for example, the number of doctor per capita,

the number of classrooms, the level of pollutants in the air and the water, and the quality and availability of public infrastructure such as mass transit. There are also new benefits such as digital penetration. All these contribute to the quality of life over time.

**Reporter:** You spoke about the application of artificial intelligence at a conference organized by Ali Research in 2017. Could you please talk about in terms of its overall development, what's China's competitive advantage? What's its weakness?

**Jonathan Woetzel:** The first advantage of China is its tremendous market for AI solutions from both business and customers' point of view. The demand is huge and people in the AI business across the world are interested in the market. The second advantage is its companies. There are many well-funded technology companies in China, which can develop solutions. BAT are important but they are not the only competitive players in the market. Ping An and others can do AI as well. The third advantage is the regulators who are interested in AI and are willing to spend money on it. Moreover, they are allowing and incentivizing government branches, such as the police, housing and urban management departments, as well as the private sector, to use AI.

However, there is also challenge. China still lacks talents and experts in the field. Out of the top 100 researchers on AI in the world, almost 50 of them work for the Google or other companies in Silicon Valley. In order to address the shortage of talents, China has to make relevant adjustments to become more attractive to global talents because in the future, it is all global AI not Chinese AI.

**Reporter:** What are the factors that lead to China to be a less attractive place to global talents? What can be done to change the status quo?

**Jonathan Woetzel:** It is hard for global talents to stay and settle down in China. Their visa has restrictions on how long they get to stay and to work here. Their accessibility to social welfare is limited, and their kids have less options for education opportunities

here. The current system prevents talents to come to China. China can change it – its government and companies can change it. Those issues could be addressed if the administration wants to, and these changes are important to attract foreign talents and experts to China.

**Reporter:** Would SOEs play a leadership role in changing the current dynamic?

**Jonathan Woetzel:** SOEs should not be the only place for changes to take place. SOEs cover the national strategic areas and interests; therefore, they are not always the best places for innovation. However, there are exceptions such as China’s world-leading strong smart grid program. Most of the time though, private companies are the optimal places where changes could take place. They can more freely choose to be more open to international talents and introduce new and innovative practices in business and human resource management.

**Reporter:** It seems like the public sentiment toward AI is stressful and concerning as many have started to worry about how long will it take for AI to completely take over their professional responsibilities. How do you look at the public sentiment?

**Jonathan Woetzel:** AI is a way of augmenting human capacity. It is saying that you have the potential to stop doing something in an old-fashioned way. You no longer need to do work in a repetitive manner, and you have more free time to be human. What are you going to do with your free time is the opportunity AI presents? AI is a choice. Customers in a market economy will decide if they want to take advantage of AI or keep the traditional approaches. What will happen is that much of the boring and repetitive work will go away. People will have to be more creative to maintain competitive. Some will feel confident about it, others will not. Over time, we will find out how much creativity people will be able to handle.

**Reporter:** The previous presentation talked about Chinese investors’ investment in

the finance sector in Africa, including lending out loans. I intuitively thought about credit investigation when I heard loans. The current data base in China allows the implementation of more sophisticated credit investigation, but with the lack of infrastructure, how will the credit investigation and loan system play out in Africa?

**Jonathan Woetzel:** China did not have a credit system up until recently and today, in fact, it still does not have a widely used one though it has been building up a more comprehensive system. The truth is, there is a credit system in every market economy. China will get one and it is only a matter of time. This credit system will no doubt incorporate AI. We will have to see if AI helps with allocating capital and providing credit to people who could use it. The real test will be with small enterprises because larger firms and SOEs generally have less challenge with financing options.

This AI-driven credit system is already appearing. The large digital platforms already provide a variety of financial tools. Other forms of micro financing, payments and loans are developing through P2P platforms. Interesting experiments have been conducted to increase the types and availability of financing options. The Chinese banking system has been effective in terms of providing capital to larger manufacturing and services firms, but it is less effective for small enterprises. It works but not efficiently. Banking crises have already occurred in the past as a result of over stimulating priority sectors and SOEs. China is aware of the financial risks and has been responsive to address to those crises in an effective manner via restructuring that debt. Now China wants to take advantage of technology to make sure investors are aware of risks, and to make sure enterprises can access capital reasonably.

**Reporter:** China has rapidly increasing presence in African countries and frequently public sentiments reflect some level of concerning and alarming feelings. Do you see the alarming public sentiment as a potential obstacle? If so, how could Chinese investors overcome the public sentiment?

**Jonathan Woetzel:** African countries used to be colonies – taken over by Western capital and missionary influences. Therefore, yes, there is understandable concern on their part; however, without capital, it is hard to develop. Moreover, foreign capital is useful but not sufficient – only domestic capital is truly long-term capital. So local contribution is needed for any foreign investment initiative to be successful. This means partnerships in Africa should be established via the form of joint ventures with Chinese enterprises. The local government should expect joint ventures to take place and develop relevant regulatory policies to guide foreign influence on domestic economy. But then it is up to the Chinese investor to decide if they want to do that.

Reporter: The previous speakers mentioned the potential role think tanks could play in local governments' decision-making process. What would be an effective means for local government to incorporate think tanks into their system?

**Jonathan Woetzel:** There is always a role for consultants and independent advisors. For instance, Confucius was a consultant – he travelled to different states and spread his teachings by consulting to heads of state. What he did worked in some places but not always. Whether think tanks work depends on the quality of their work. In China, the quality has to improve. The quality of research is not reliable enough because it lacks quantitative rigor. Many times this is caused by lack of data and insufficient independent analytic thought. The work occasionally seems repetitive. Think tanks are composed of people. The people you get are either from academia or government, and in some exceptional cases might be from corporates. Ensuring the highest quality of thinking combined with real world experience should be the goal of any Chinese thinktank. Overall, there is much room for think tanks in China to grow, but the quality of their work needs to be improved. .

Reporter: You mentioned the importance for Chinese government to establish “responsible business guidelines” for corporates who are expanding to the African market. What kind of implementation issues do you expect? Would the

## implementation of rigorous policies work against localization?

**Jonathan Woetzel:** Guidelines are intended to set a standard. The difficulties with implementation should not prevent setting standards. The Chinese regulatory approach has to be clear about what is unacceptable. It should regulate the outcome and to define what outcomes are unacceptable. Bribery should not be accepted. Violation of health or safety regulations should not be accepted. One definition of a health and safety code might be for instance, that the risks of operating business in certain way exposes employees to health and safety risks that are significantly greater than those of the competitors. If in China, environment pollution is not acceptable, then there is no reason why its companies should not adopt the same standards abroad. Some kinds of equipment and work force practice are too dangerous and dirty to be allowed. Again, it goes back to the enforcement questions, which will depend on the government's monitoring and verification efforts.

# The Changing Landscape: UN and New International Development Organizations

Reporter: Guo Qi



**Ramu Damodaran**

Deputy Director for Partnerships and Public Engagement,  
Outreach Division, Department of Public Information of United  
Nations

With development issue becoming more important than ever before, new challenges and opportunities are constantly changing the landscape of international institutions. UN, along with existing and new international development organizations should foster cooperation and adapt to the changing dynamic of the world.

**Reporter:** International development organizations today are thriving with demand for their financing and services growing. But new challenges are calling for more flexible and effective multilateral responses. However, there are troubling signs of retreat from multilateralism while new and pressing challenges call for multilateral action, as evidenced in the Brexit. What suggestion do you have for international development organizations to better adjust themselves facing this kind of new challenges?

**Ramu Damodaran:** What does retreat from multilateralism mean? One possibility is that they are creating smaller and overlapping groups. There are groups of nations



which belong to one community and others belonging to other community. Some even belong to both communities. That doesn't mean that they are shining away from the UN. The institutions that serve their interests are also serving the larger commitment to the UN particularly in the era of sustainability.

Multilateralism includes people's sense of if they should be governed by global laws which are bigger than themselves. That is a problem some institutions are facing and trying to get away from. But the more important thing is if they are willing to take a step backward by making a step forward and working towards universally great cause, particularly the Sustainable Development Goals. My take is that we have to become less and less concerned with the process and procedures, and be more preoccupied with the end results.

**Reporter:** Yesterday you quoted Xi Jinping's speech, stating that in international development organizations there should be "partnerships for equals instead of donors and donees." But there still is a split between donor countries and donees. In larger MDBs, donor countries have held sway, and as a result, the policies have generally followed their priorities, which are not necessarily in line with the optimal development goals. How do you think we can achieve the goal of "partnerships for equals"?

**Ramu Damodaran:** There are two aspects. One is that it's critical to keep everyone in the game. The UN, for example, has a security council that has five permanent members. They have a greater power than other countries. But the goal is about people having their own opinions. UN is a very difficult institution to create. The reason that these five countries chose to become members of UN was because we have that assurance. So one has to keep weighing the immediate goals against the long term goals.

The second point is that countries have to realize that ultimately it's in their self-

interests to help other countries develop. That is what I meant by “donors and donees”. So far the model of the international development assistance has been that you should respect the ethical justice that you should provide money or services to less developed countries. But now it becomes a more practical issue, because countries and companies need markets. This is how the equation is changing. So I think president Xi Jinping meant that any partnership based on a hierarchy is bound to fail.

**Reporter:** In recent years, there have been two new multilateral development banks (MDBs): the Chinese-led Asian Infrastructure Investment Bank (AIIB) and the New Development Bank. How they will fit in with existing institutions is under heated debate. U.S. policymakers especially worry that they will diminish the influence of existing ones, where they have held a powerful leadership for decades. What do you think this means for different countries? How do new MDBs cooperate and coordinate with existing ones?

**Ramu Damodaran:** According to my research, I don't think people should feel threatened at all, because actually most developed and developing countries will benefit from a growing number of institutions rather than just one. Besides, cooperation methods have already been established, the World Bank and the New Development Bank signed a MOU (Memorandum of Understanding) in 2016 to address the world's enormous infrastructural needs. Last year, World Bank also signed an MOU with AIIB for joint work in international development financing. So what we now see is an emergence of new institutions that are working together. Even in yesterday's roundtable, it's very unusual to have UNESCO, the Red Cross and WHO to share ideas together. Why do we need all these international institutions? It's easy to see that each of these is addressing a fundamental area. Once organizations start to do their work, there will inevitably be overlaps. And they will try to work it out by either informal understandings or written understandings. So I'm not afraid of an increasing number of institutions so long as there are two principles kept clear: one is that they do not

contradict with each other, the other is that they actively look for areas where they can cooperate and formalize that cooperation.

**Reporter:** A few days ago, Kenya became the latest country to join the AIIB, which has 86 member countries in total now. But major countries like U.S. and Japan are still reluctant to join AIIB, while they both joined ADB (67 member countries). Many consider China's growing power in MDBs and other international organizations a potential threat. What's your opinion about China's influence and the future of AIIB?

**Ramu Damodaran:** The agreement of the AIIB clearly states that the purpose of this institution is to foster sustainable and economic development, create wealth and promote regional cooperation and partnerships in addressing development challenges. So it's obvious that when implementing this purpose, China will have an impact in this area. Whatever balance that needs to be done, we must make sure that the overall purpose of AIIB is reached.

When it comes to Kenya joining, first AIIB's stated mission of being a global institution for regional purposes is fostered. Secondly, I think we have to get out of the mindset of looking at the credibility of international institutions based on who are not members rather than who are members. In fact, in its first 25 years, UN was considered not credible because some large countries in the world were not members of it, for example, the People's Republic of China. Despite that, it did achieve a great deal, which today the People's Republic of China acknowledges and looks back on. So the two countries mentioned above may have their own reasons for not becoming members, but on the other hand, 86 countries are. I don't think anyone of us can actually predict national policy. So long as the purpose of that institution and the commitment of the countries that are not members are in harmony, it shouldn't be a problem.

**Reporter:** In your speech you mentioned Asia's responsibility in a changing world is "Asserting Strength in Action". However, Asia is mostly composed of developing countries, so we theoretically don't have as much strength as some other continents. How can we make ourselves heard and make ourselves truly credible to other parts of the world?

**Ramu Damodaran:** If Asia is able to show that it can address its own problems, and the countries in it can either work independently or cooperate with other countries or institutions, it's acting to prove that it's a physically strong continent. What I was trying to illustrate is a continent that is valued more in intellectual or cultural sense. Because when people think of Asia, we think of great minds such as Confucius and Gandhi, or great music such as Beijing Opera and the dances in India. Those are the images we get. We don't get the idea of robust governments acting together for their people. I think the two greatest countries in Asia population wise - China and India - are setting the example for that. They are showing that you can have a rich civilizational, cultural and historic heritage, but you can also be very much in the present and work with people. That also helps other countries in Asia, and they begin to assert themselves and act, then you will be able to have that strength even if so far Asia is not the strongest continent.

**Reporter:** In your speech you mentioned "UN it's not an actor, it's a stage." But we also have seen powerful countries bypass UN and act on their own immediate interests, or just decided that they no longer want to be a part in some UN activities. Can you further explain what that means for UN in the context of international development?

**Ramu Damodaran:** What is a stage? A stage is a physical space. In terms of a play or a drama, a stage is a place where actors can perform, which means there are only people who have roles on it. In this sense UN has 193 countries that have a role in it. But

anyone from the audience can also jump onto the stage. If that person is welcomed by the actors, that person can become part of the play himself. That is what's happening in international development now with civil society, academic institutions and multilateral development banks. This is what my idea of a stage is. A stage allows you to act. It allows some people to stay off and not participate. It allows others to come in and if they are not welcomed, they can leave the stage. That is the metaphor I'm trying to push forward. The stage has an absorbing capacity.

**Reporter:** In the roundtable one guest speaker from WHO mentioned how bureaucracy gets in the way of UN performing its primary and urgent duty, so to speak the internal issue of UN is making people question the efficiency and accountability of UN. What's your take on the relationship between the internal operation protocol of UN and its capability? Do you think UN is in need of a reform in order to better help the world?

**Ramu Damodaran:** People feel any government or administration is bureaucratic, and they think so with good reasons. Governments and UN have to be accountable, but because they are run by human beings, they have to create procedures which seem to be too much. Very often people feel frustrated by this. An example just came up this morning. We were talking about how people get jobs in UN, and the process of hiring someone in the UN takes on the average of nine months, because we are a bureaucratic organization. Why is that? Because in every stage, you have to be satisfied with people that you will work with. You have 3000 candidates, and you bring it down to 500. This long process is to make sure that you will not make mistakes somewhere. Then you will have to explain to who oversees this work. All of this work is ultimately to ensure the processes and results are fair. I think what we do need to do is to make sure the level of time and bureaucracy is really reduced in cases where the purpose is not served properly, like in urgent humanitarian situation or peacekeeping situation. If it takes nine months to recruit peacekeepers to go where war has already broken out, they will probably be

no longer useful when they get there. I would only say that the institution has to constantly try to make itself more agile. And if the member countries can provide more ready-to-go help, it will be much better.

The UN is already reforming. There are three major reforming in discussion, one on the political and peacekeeping side, one on the development side and one on the management side. In the 21<sup>st</sup> century world where things change so fast and situations can be so unexpected, you have to constantly make sure that you can react swiftly. This requires a reform. The rules that are broken today, if you can show that they are broken for a good purpose without any unfortunate results, maybe they should not exist anyway.

**Reporter:** When it comes to development issue, there are multiple players apart from MDBs, including NGOs, World Bank, OECD etc. Some say that NGOs are not very helpful, while others think they are underestimated. What do you think is the role of NGOs in international development issue and what is the uniqueness of them, namely what they can and other kind of organizations can't?

**Ramu Damodaran:** It varies from NGO to NGO. Some NGOs do extraordinary good work, and what makes them unique is that they are great outside of governments, but then their goals and objectives are exactly what governments want, such as clean cities, good health, economic development and the rights of women. All of these are what governments tried but sometimes couldn't achieve on their own. That's when NGOs come in and bridge the gaps. There are other NGOs that want to be part of the action but have no great idea contributing to it. They exist only because they set themselves up. So you have a number of very good NGOs and some really bad ones. So there is no one pattern of it. I think what people from UN all agree is that what we do for the world can't be done alone. It needs the support of governments, MDBs and NGOs. I think that's already happening. Much of the global movement on issues which now become political reality like climate change and women's right began with the help of NGOs.

UN agencies like UNAIDS really started because of the work of NGOs. Our secretary general recently said that China is the central pillar of the multilateral system, but it's also important to keep in mind that this central pillar is backed by an active civil society in China of scholars, thinkers and NGOs.

## Stability Begins at Home: Future Options for the EU and China

Reporter: Xiang Chen



### **Rainer Klump**

Professor Rainer Klump is Chair of Economics and Economic Development and Integration in the Department of Applied Econometrics and International Economic Policy at Goethe University, Frankfurt and the co-director of the Wilhelm Merton-Center for European Integration and International Economics. Dr. Klump is also the former president of the University of Luxembourg.

The IMF in international monetary relations is of course the very important institution. However, the role of China could be strengthened in IMF. Meanwhile, Europe should be actively working on that even if Euro has to lower its share in the institution. I think it even would be the interest of Europe to support China's request for higher quota in IMF. For Italy's debt, it's an internal question of course, but they need to be solved, and Eurozone is not a place that members could do whatever they want. For Germany, it is very aware that it takes a lot profit from the EU, so it's also willing to pay for it, even pay more. For the China- US trade war, the EU should try to not be captured into that hostage. The Europe has its own interests and they should be aligned to the interests of China or the U.S., but they should not take hostage either from one side, especially not from the united states. For RMB internationalization, it's a need that if countries want to diversify out of the dollar, the Europe, as well as China, should be open for that.



**Reporter:** The topic for subforum is “Asia and Europe Synergy: Building an Adaptive and Inclusive Global Economic System”, what trade and financial measures or institutions should Asia and Europe together give priority to?

**Rainer Klump:** I will discuss it through two perspectives: existing institutions and new institutions. Firstly, China and Europe should work together and could work together even within in existing institutions, but maybe the existing institutions can be reformed. So, for example, we discussed in the panel that the IMF in international monetary relations is of course the very important institution. However, the role of China could be strengthened in IMF. Meanwhile, Europe should be actively working on that even if Euro has to lower its share in the institution. Even on that, I believe Europe could take profits from cooperative arrangement with China in IMF and other international financial institutions — that’s within institutions.

For new institutions, well, I think there are already a couple of dialogues and forum institutions that can be used, so I don’t see we need to invent new ones. Then, my advice would be making better use and wiser use of existing institutions.

**Reporter:** How could we push the reforms of the IMF more practical with more agreements?

**Rainer Klump:** Cooperating within the IMF could be something quite practical. When we talk about the reform of those quota, it could be very practical argument. I think it even would be the interest of Europe to support China’s request for higher quota in IMF, to align its rule in the current situations.

**Reporter:** Back to Europe itself. Italy’s new populist government really might blow up the euro. There is the voice that the euro crisis in Greece in 2015 never really ends but, rather, takes a break for a while, that is what is happening in Italy

right now. What policies and institutions in the EU to deal with those challenges?

**Rainer Klump:** Italy is an urgent problem. I only hope every member in Eurozone could comply to the rule of the zone. We have to find the ways to make them comply. Greece, in the end, it is the small country. But Italy is the major player in the Eurozone, if they don't comply to the rules, it would be very hard for us. I think we would have to solve this problem in the end. The question is whether they would give up the Eurozone. I think they will be talked to illustrate to them what would it mean to lose the support of others. It's an internal question of course, but they need to be solved, and Eurozone is not a place that members could do whatever they want. So the rule needs to be complied.

**Reporter:** Does the EU have the new legally-binding rules for Eurozone? Is it really effective?

**Rainer Klump:** Yes of course. They have the rule. But question is how can they be forced. I think the enforcement, the Italy, and also other countries, will in the end have the financial flows receiving from the EU. It's a new discussion for the new financial framework, starting from the 2021, and of course, they have to find the link between complying to the rules and participating in the financial flows that comes from the financial framework.

**Reporter:** How do you think the role of Germany on the economic integration of the European Union? Do you think it's the European Germany rather than the German Europe in terms of the EU financial buildings and the way to deal with the financial crisis?

**Rainer Klump:** The first we need to ask is: in what way? Germany is the biggest

country and largest economy in Europe. So there is a certain influence that Germany has and would have. But if you look at the European Central Bank policy, you cannot say this is the policy really driven forward by Germany. Germans are very critical about the EBC policy as well. But they also apply the rules in that system. I think it's always as compromise you can find in the countries like Germany and other countries. I think Germany is very aware that it takes a lot profit from the EU. So it's also willing to pay for it, even pay more. So I think it's the awareness for future reform of the EU, and also, Germany needs to pay more of Brexit. Of course, there is a lot criticism against the Europe, but in the end, I think Germany is quite pro-European and will be willing to pay price for it. So in that sense, I hope we are the European Germany. Germany is the major supporter for the EU institutions.

Maybe the crucial test would be European elections next year. The problem is perhaps that, comparing to France, that Macron was able to say that he is prone to European movement, I don't see such pro-European party at the moment of Germany. So I still wonder whether Macron will come over to Germany and maybe he will be able to be voted in elections. That will be interesting to have a vote for pro-European party.

**Reporter:** How Should the EU position itself in response to the U.S. challenge to global trade, especially the “China-US” trade war?

**Rainer Klump:** The EU should try to not be captured into that hostage. The Europe has its own interests and they should be aligned to the interests of China or the U.S., but they should not take hostage from one side, especially not from the united states.

**Reporter:** Four years ago, you came to Beijing and gave a speech about the RMB Internationalization. You mentioned Europe would be a good choice for this internationalization process. Four years passed, what's new step connecting with Europe in this process, and what is your expectation on those steps? And

future steps?

**Rainer Klump:** It's a good question. Because, indeed, during these four years, not so many things happened. That was a surprise for me. I would expect that internationalization would go much further, instead, we saw the new strength of the internationalization the dollar, but I don't think this will continue like that, because there is the unpredictability of Trump administration. the U.S. is so big, but I would see more and more countries are trying to diversify their reserves. And this is the move for both the Euro and RMB.

I also notice that, from the Chinese side, they have been reluctance to make RMB internationalization so fast, so maybe there is the fear that one will lose its control over the currency. But I think if the market forces globally want to see further diversification, china should not be hostile to that. I think it's a need that if countries want to diversify out of the dollar, and want to go into the Euro, want to go into RMB. I think Europe, as well as China, should be open for that.

So, my projection is that we will and should see more steps on that. And that is historically perfectly in line with what we have seen so far that has always the portfolio of currencies that played an international role. So the dominance of dollar is historically very unique.

**Reporter:** Luxembourg has developed as the leading European financial center in terms of RMB denominated investment fund, loans and deposits. How do you evaluate the role of Luxembourg as the offshore RMB center in Europe? What's comparative advantage it has?

**Rainer Klump:** Well, it's due to the trade relations, and it's due to the FDI that going on. Maybe also the reason is that a couple of very developed financial places and

countries. In the case of Luxembourg, I know all the major Chinese banks have come to Luxembourg to open branches there, and government is very supportive to that.

But I also notice that Hungary is very active on that. Maybe it also connected to the one belt and one road initiative, particular directed towards Europe. And It's quite natural.

## Forum on China-Africa Cooperation: Promoting New Developments in China-Africa Cooperation

Reporter: Zou Jinshui



**Zhang Chun**

Director, Institute for Foreign Policy Studies, Shanghai Institutes for International Studies (SIIS)

Forum on China-Africa Cooperation, as the world's largest and most effective platform for "South-South cooperation", has promoted sustainable economic and social development in Africa. Under the "Belt and Road" Initiative, Forum on China-Africa Cooperation will play an more and more important role in the relations between China and the Africa.

**Reporter:** Founded in 2000, Forum on China-Africa Cooperation (FOCAC) has become an important platform for China and Africa to have collective dialogues and deepen mutually beneficial cooperation after 18 years of development. China has introduced a number of key initiatives for cooperation with Africa in each Forum session and in December 2015, President Xi Jinping presented at Johannesburg Summit of the FOCAC China-Africa "ten cooperation plans" with industrialization and agricultural modernization at the core. What do you think the FOCAC has achieved so far? How is it going with respect to the implementation of these cooperation initiatives?

**Zhang Chun:** The FOCAC has achieved a lot over the past 18 years. The first, foremost and also the most visible thing is economic achievements made by China and Africa, which can be divided into those in trade, investment and the overall economic structure. In respect of trade, great progress has been witnessed in China-Africa trade as China-Africa bilateral trade volume totaled only USD 10 billion in 2000, but now the figure is approximately USD 179 billion, despite declines in 2015 and 2016, which were mainly owed to drops in commodity prices in Africa in those years and do not mean that the partnership between China and Africa goes bad. In respect of investment, Chinese investment in Africa grows fast as there was nearly no investment by China in Africa in 2000, but as at the end of 2016, China's direct investment stock in Africa has reached USD 39.9 billion. Additionally, from the perspective of changes to the overall structure of China-Africa economic cooperation, players having economic exchanges with Africa were state-owned enterprises, but now private enterprises account for the overwhelming majority. There are more than 3,000 Chinese enterprises investing in Africa, including more than 2,800 private ones, accounting for over 90%. With respect to the amount of China-Africa economic exchanges, private enterprises contribute about 60% while state-owned ones contribute the rest 40%, also indicating the predominance of private enterprises. Therefore, structurally, private enterprises are more involved in China-Africa economic cooperation.

But in my opinion, the most important achievements in China-Africa relations are not economic, but political and strategic. Politically, Chairman Mao once said that "it is our African brothers and sisters who carried China into the United Nations" and today, China still needs political support from African countries, including for the South China Sea issue and the reform of the UN Security Council; of course, China also offers strong political support to African countries, for example, China supports the "Ezulwini Consensus" reached by African countries on reform of the UN as long as Africa can put forward a feasible scheme.

Strategically, the establishment of the FOCAC and the achievements it has made have raised the strategic position of Africa. The international community strategically neglected Africa, especially after the end of the Cold War, when the strategic importance of Africa seemed to have appeared. For more than a decade since then, the West took no account of Africa strategically and had been in aid fatigue, with the aid to Africa in 2000 less than that in 1991 (before the end of the Cold War). It was not until 2000, when the FOCAC was established and China-Africa cooperation grew fast, that other countries began to strategically emphasize Africa, with the EU planning to set up EU-Africa Summit and Japan intending to Japan-Africa Summit. Besides, the cover story in the *Economist* was titled “Hopeless Africa” in 2000 and “Africa is Rising” in 2011, indicating that western countries have attached more importance to Africa strategically and the strategic position of Africa has greatly promoted compared with that 18 years ago, which are impossible without the role of China.

**Reporter:** Since China proposed the “Belt and Road” Initiative (BRI), African countries have shown strong interest in the initiative and hope to strengthen cooperation with China. Moreover, the 19<sup>th</sup> CPC National Congress has put forward the overall objective of building a community of a shared future for mankind when it comes to diplomacy. Beijing Summit of the FOCAC, which will be held this September, is without doubt faced with a new background and international situation. So, what features do you think this summit will have? What will be the new changes to China-Africa relations and cooperation?

**Zhang Chun:** There is no doubt that the BRI will be a very critical theme of the Beijing Summit this year, because most African countries are challenged by problems such as infrastructure shortage, capital scarcity and talent bottleneck, while China’s BRI contains cooperation in these respects. With respect to infrastructure, the BRI stresses infrastructure connectivity, which can help African countries with infrastructure construction; with respect to capital, the BRI also emphasizes financial integration, with



programs such as AIIB, Silk Road Fund and South-South Cooperation Fund funding African development; with respect to talents, the BRI has policies such as people-to-people bond, policy coordination and cultural and people-to-people exchanges to promote talent cultivation in Africa. Additionally, “community of a shared future for mankind” will be another theme since China has little understanding of African countries while Africa is faced with a lot of problems, requiring cooperation with and support from different parties to better carry Africa forward, and China-Africa community of a shared future is an integral part of the community of a shared future for mankind. I think the last theme of the summit will be “co-building the BRI and China-Africa community of a shared future”.

The summit will also involve some other topics, including promoting “One Voice” and “Common Position” within Africa, so that it can cooperate with China more smoothly. To achieve African “One Voice”, a three-dimensional architecture might be formed at the continental, regional and state member levels, changing the original simple mechanism of multilateral planning and bilateral implementation. Within the framework of the FOCAC, the proportion of regional and continental projects will increase in addition to key bilateral projects, more highlighting the role of the African Union (AU) and of regional African organizations.

In short, China’s support for Africa will maintain the robustness of policies as a whole and cause gradual changes in some aspects; China-Africa cooperation will also shift from stressing quantity increase to valuing development quality, which is aligned with the UN Agenda 2030, AU Agenda 2063 and China’s sustainable development goals, so this requires the Beijing Summit to focus on how to develop “quantity-centered” China-Africa cooperation to “quality-based” one.

**Reporter:** Africa is not monolithic as African countries have different voices on the BRI and the implementation of some cooperation projects, so what doubts do you think different African countries have about the BRI? What risks might

## China face in the implementation of the BRI? How should China deal with them?

**Zhang Chun:** This can be viewed from three perspectives. Firstly, from the perspective of the demands of African countries, some countries lack infrastructure while some might demand more for technology given a relatively high level of economic development. Demand varies from country to country, which might lead to different views about the BRI. But generally, the BRI has rich connotations, in which most countries can enter into cooperation with China, so most African countries champion the BRI.

Secondly, we should get to know how medium- and long-term strategic priorities of African countries dovetail with the BRI. Following the global financial crisis in 2008, many African countries believe that short-term national planning will not work and they need medium- and long-term strategic planning, but electoral politics probably will cause economic policies to change too rapidly, which harms long-term economic development. Africa is witnessing a rise in the awareness of strategic development planning and many countries have released long-term strategic visions or strategic planning for 15 or 20 years. So, what China has to consider is that which aspects of the BRI can dovetail with such 15-year or 20-year strategic planning. If the BRI cannot well dovetail with the development strategy of a country, the country will not be interested in the BRI; otherwise, the country will be enthusiastic about the BRI.

Thirdly, we should take into account the possible impacts of the BRI projects in the course of implementation. Five years has elapsed since China put forward the BRI, which can be considered to enter into the stage of full implementation from the BRI Summit last year. However, a lot of problems will occur in the implementation of the BRI, especially the conflict between conception at the national strategic level and practice at the enterprise level, which will affect how African countries, in particular the people there, view the BRI. People in African countries most often focus on whether

immediate interests of local people can be taken into consideration in the implementation of the BRI, instead of the grand strategic vision of the BRI. For example, China and local people might have different views about land acquisition in the advancement of the BRI projects: China might consider it as an issue of demolition and compensation while local people might link land to culture and identity.

**Reporter:** As the BRI is brought into full implementation, more and more Chinese players participate in economic and trade investment in Africa, and China-Africa cooperation and their dialogues and exchanges with third parties are increasing. Where do you think FOCAC can further upgrade the institution or mechanism, so as to further improve its ability to coordinate internally and externally?

**Zhang Chun:** Firstly, in China, the Chinese Government is doing better in restraining and coordinating domestic players, especially state-owned enterprises and collective stock companies. Major problems lie in Chinese private enterprises in Africa, which are too many to be regulated by the government; worse still, these private enterprises have a weak national consciousness and sometimes cannot cooperate with the national strategic planning, which “resort to the embassy only when they are in trouble”. Therefore, as the number of Chinese players in Africa grows, China should make preparations for the protection of its overseas interests and have a sound early warning mechanism in place.

Secondly, with respect to the cooperation of China and Africa with third parties, the community of a shared future for mankind not only include Africa, but also other countries. But there are at least two problems: one is how Africa views these third parties, because Africa often understands tripartite cooperation as “China+ Africa+ the West”, and once Africa identifies the third party as the West, it will be reluctant to cooperate and be suspicious. The other is that China must impose “threshold”

requirements on third parties with which it will have cooperation, because China's policy stance is always being a partner and reliable friend of developing countries, and China is stronger than Africa and should take care of the interests of African countries in planning and developing tripartite cooperation. As a result, China has some threshold requirements for third parties, namely "to be initiated, agreed and led by Africa"; in other words, all tripartite cooperation should be initiated by Africa, not imposed on Africa by China; such cooperation should be agreed by Africa, since Africa is relatively weaker than the third party and China, and the implementation of a project requires the consent of Africa; additionally, Africa should play a leading role in the specific implementation of a project. Many Western countries are unwilling to accept the three requirements as they are used to initiating and leading African development projects.

**Reporter:** FOCAC, as the world's largest and most effective platform for "South-South cooperation", has been insisting on the principle of mutual non-interference, reciprocity based on equality and win-win cooperation in dealing with Sino-African relations and has promoted sustainable economic and social development in Africa. What experience do you think FOCAC can offer to global governance?

**Zhang Chun:** China has accumulated a lot of experience from China-Africa cooperation. The first is mutual respect between China and Africa. Secondly, China has gradually developed a set of ideas including "honesty and sincerity" and "a correct view on justice and interests" towards the cooperation with Africa within the framework of FOCAC, because Africa is economically weaker than China, which requires China to take proper care of the interests of Africa, not only by surrendering some economic benefits, but also by allowing Africa to play a leading role in cooperation and sticking to the principle of "being initiated, agreed and led by Africa". The third is the idea of "development first". China's experience or model of participating in African development is that China stresses "development first", which is a major difference

from the West whose development prescription for Africa is to first improve safety and reform its political system, so as to maintain “good governance”; this changes the concept of “development” by focusing on safety and governance, and actually represents the idea of “development conditions first”. China always holds fast to the idea of “development first”, directly help African countries realize development and solve the existing safety and governance problems and new problems occurring in that process through development, thus forming a benign spiral development pattern. “Development conditions first” advocated by the West has a different internal logic from China’s “development first, which is key experience China has learnt from its cooperation with Africa. The fourth is collective dialogues and bilateral implementation. The Beijing Summit held this year might further improve this mode. China has dialogues with Africa as a whole through FOCAC, which allows Africa to emerge stronger in dialogues and cooperation with China and changes the “divide and rule” policy the West has pursued in Africa for long, which weakens Africa constantly. China treats Africa as a “strong” partner rather than a so-called “enemy”. Finally, China pays great attention to the implementation of cooperation projects, has strong execution and holds fast to the idea of “practicalness” in international cooperation.

In short, China’s viewpoint on global governance of “achieving shared growth through discussion and collaboration” has been clearly reflected in FOCAC, with remarkable achievements. However, China should still remain prudent and risk-aware in international cooperation and global governance to prevent “setbacks”.

# Changing International Trade Pattern and China's Attempts to Improve Global Trade Governance

Reporter: Huang Xinneng



## Zhang Haibing

Director and Research Fellow, Institute for World Economy Studies, Shanghai Institutes for International Studies (SIIS)

Over the past two and three decades, significant changes have taken place in the balance of economic power, causing adjustment to the international trade pattern. In such changing international trade pattern, the traditional trade system presents some limitations, with great disagreements among member states. Against such a backdrop, China has been persisting in the policy of 'opening up' and exploring how to improve global trade governance in its own ways.

**Reporter:** In recent years, globalization has been encountered with anti-globalization forces as international trade protectionism is on the rise and there are more and more voices against globalization. So, why do you think China persists in “opening its door wider instead of closing it”?

**Zhang Haibing:** A review of China's development history suggests a sharp historical contrast between seclusion and reform and opening up. This year marks the 40<sup>th</sup> anniversary of reform and opening up, and China's economy has undergone dramatic changes within less than half a century. These changes prove that reform and opening up is to the benefit of the development of China. Given judgments and analysis made by state leaders and scholars, China is a beneficiary of economic globalization and

especially since it acceded to the World Trade Organization (WTO) in 2001, China's economy has been pushed forward a lot by international trade. Trade has great "spillover" effects. China began with processing trade and learnt by doing whilst slowly and gradually improving its own industrial system, with its technical and managerial capability greatly enhanced. In short, China is historically a beneficiary of globalization and opening up, and this firms our attitude towards further opening up.

Meanwhile, China supports an open world economy and complies with the general trend of world economic development. Technological progress and IT development have quickened globalization. With lower barriers, the flow of factors such as trade, labor, information and service continues to speed up. Regional trade negotiations and agreements not only respond to new challenges posed by globalization, but also reinforce the irreversible trend of globalization. Regional agreements and trade rules are increasingly infiltrated into borders, which is an obvious trend in further globalization. Actually, "Community of Common Destiny" proposed by China is a basic idea based on globalization and global village and conforms to the trend of world development.

**Reporter:** Someone pointed out at the roundtable that China is already a great trading nation, but not a trading power. How do you think the role can influence China's participation in international trade?

**Zhang Haibing:** A great trading nation is quite different from a trading power, not only in trade volume, but also in the category of goods and services in world trade, technical content, transaction currency and standards, among others. It is a combination of a country's position in the global industrial chain and its integrated impact on global trade. Of course, China is a large trading nation and has a long way to go to become a trading power. However, we should look at it objectively and concretely. In general, there is a technological gap between China and developed countries such as the U.S. and Europe, but we have an advantage in some core fields like high-speed railways. We should look at China's trade strength by product and field. Someone might ask if China earns little due to limited relative advantage in the industrial chain, which depends on the way one looks at an issue. During our recent survey in the U.S., Americans presented a very

interesting idea. They did some research and just take iPhones for example, most of the profit China has earned, though little, is owned by workers, but in the U.S., most of the huge profit flows into the hands of capitalists. It relates to social distribution. Though China earns much less absolute profit than the U.S., the Chinese have a greater sense of gain than Americans with respect to distribution, which can extend to the issue of social inclusion. Therefore, the concept of trading power is relative.

**Reporter:** So, how do you regard the China-U.S. trade war initiated by Trump?

**Zhang Haibing:** Trump’s presidency is championed by populist and civilian forces and he has subtly smelt the social division in the U.S. and the impact of globalization, so he emphasizes creating jobs and focusing on the jobless and lower classes. One of his solutions is trade war, which aims at providing jobs and shaping a common enemy. An effective means to promote internal solidarity and social integration is to have a common enemy. Since 2010, China has basically become the largest source of trade deficit of the U.S.. According to U.S. statistics, U.S. trade deficit with China is around USD 375 billion, which is reported by China to be over USD 270 billion. Besides, ruling and opposition parties in the U.S. have unprecedentedly reached a consensus on the orientation of Sino-U.S. relationship, which is one of strategic competition. U.S. elites and the Pro-Establishment Camp used to believe that China could be transformed through marketization and globalization, but they changed their mind with China’s growing national strength and some statements in Xi’s Report to the 19<sup>th</sup> CPC National Congress and began to regard China as a strategic competitor. A look at the National Security Strategy of the United States of America indicates that the U.S. has positioned China as its largest threat. Of course, such positioning is structural and systematic and can hardly be changed. Even if a country has not declined, it appears to be relatively decline in case of the rise of another. Changes in the international power structure definitely will cause instability and shocks, and what underlies U.S. trade sanctions on China is that it has defined China as a “strategic competitor”.

**Reporter:** The U.S. is now highlighting “trade protectionism” and opposing China's trade, does this violate its free trade system?



**Zhang Haibing:** Great powers always act in their interest. The U.S. still claims to adhere to free trade, which should be built on equality and equity, but when it comes to what such free trade, equality and equity mean, it depends. Moreover, the U.S. no longer is regarding China as a developing country. In the past, most-favored-nation treatment and non-discrimination were reciprocal, but this is not the case with countertrade nowadays, which means that a country should be offered whatever it offers to another. Anyhow, all powers change their compliance with free trade, including their attitudes towards the WTO, with the specific time and situation. U.S. does not say it would not champion free trade, since Trump's trade policy has "five pillars", of which the fifth is "to strengthen the multilateral trading system" and "support the WTO", but the first is to defend the national security of the United States. Trade, if concerning politics or security, can hardly be measured or judged by a rational rule or system. At the G20 Hamburg Summit last year, the U.S. stressed global economic governance based on rules, with these rules to be determined by superpower game. Trump's America First is after all the supreme of the U.S. and presents typical hegemony.

**Reporter:** You mentioned today's global trade governance system in your speech, including the inefficiency of the WTO, so can you explain what causes these predicaments in details?

**Zhang Haibing:** Among the international organizations set up since the end of the second World War, the WTO is the most equitable; in others like World Bank (WB) and International Monetary Fund (IMF), the voting power is proportional to capital contribution, which means those who contribute more have a greater say, and the U.S. has veto power. In contrast, the WTO pursues one country one vote and voting upon consultation, and WTO negotiations should each be treated seriously, which might be difficult with great powers as the trade volume is high and be relatively easy with small countries. The most controversial part of the WTO is its "Green Room Meeting", where major WTO members determine rules upon negotiation and then notify small countries of such rules. Although it can more effectively promote the process, the practice is criticized by many people as it deprives other countries than those powers of engagement. So the WTO is challenged by such a dilemma that it cannot have both

efficiency and equity.

Another challenge for WTO negotiations is that no country compromises with another and developing countries face great differences. No progress has been made in the Doha Round negotiations over the years. There is a paradox: developed countries provide Africa and other developing countries with a lot of development assistance, help them develop agricultural products and other primary commodities, so that they can export their agricultural products, upgrade their industries and reduce reliance on resources; but developed countries impose quite many protective measures on agricultural products, actually impeding the access by these developing countries to their markets. In other words, assistance policies are opposite to trade policies, so it is necessary to emphasize the coordination and alignment of policies. Additionally, developing countries have different requirements in that an agricultural nation thinks more of agricultural products while a non-agricultural nation does not; but different agricultural nations might show different focuses, so it is hard to coordinate. In short, the WTO just offers public rules, like “traffic rules”, which, if observed by everyone, will facilitate trade, or will cause “trade jams”.

**Reporter:** You emphasized China International Import Expo (CIIE) in your speech. What do you think the “Belt and Road” Initiative and CIIE can contribute to promoting a consensus among different countries and improving global trade governance compared to existing mechanisms? What is the progress?

**Zhang Haibing:** China is a practical “do country” and advocates doing ahead of speaking, learning whilst doing and doing whilst observing, according to the Nepalese when we made a survey in Nepal this year. The “Belt and Road” Initiative proposed by China is enhancing coordination of rules and alignment of strategies, but it does not aim at establishing or imposing unified rules. We take into account local standards, focus on alignment of standards and respect the circumstances in other countries in cooperation. Of course, we hope that other countries can recognize Chinese standards and technologies at the same time, which, in our opinion, should come naturally. This is how we differ from Western countries. They make a lot of preparations and feasibility studies for their assistance and economic operation projects, with much time and money

spent on early studies by experts and negotiations. This is of course helpful as they take into consideration all risks. What China does is often dealing with risks and solving problems whilst implementing a project. This practice is fast and low-cost as it greatly shortens the project cycle, but might have risk control problems. China has been insisting on formulation of equal, multilateral, flexible and coordinated trade policies, and will not radically promote high-standard trade agreements.

We established the International Import Expo and declared the same at the Road and Belt Summit last year with some justification. Someone said China exported excess capacity through the Belt and Road Initiative; this is actually not the case and we pay great attention to opening to the outside world. With the International Import Expo intended for “opening”, we expect to maintain an open world economy and show an open China. We have built the platform to be actively geared to the international market, respond to international views about China and present China’s leadership and political will. President Xi also said that everyone was welcome to take a free ride on China, for which the Expo is a direct example. Co-building the “Belt and Road”, investment going out, establishing the Expo and buying staple commodities in are “practical” Chinese solutions and contributions, and tangible benefits offered by China. Furthermore, we can promote communication through these platforms and practical solutions, which contributes to the coordination work. Of course, it is uncertain how much such contribution will be as it is too early to draw a conclusion. After all, the Belt and Road Initiative has a history of just five years and the Expo has not yet been held. Let’s wait and see.

# **“Disintegration” Trend Emerges and Distribution System Waits for the Urgent Adjustment**

Reporter: Zhang Yuting



**Wan Guanghua**

Dean, Institute of World Economy, Fudan University

*China whose aims is the global integration and cooperation, as the largest and most successful developing economy, can advance the next round of globalization on behalf of most countries. The Sino-India cooperation is of great importance in the process of Asian integration.*

**Reporter:** You have studied the goods trade relationship among the countries along the Belt and Road, and also served in the Asian Development Bank. So far, many new ideas such as AIIB and the world as an integral whole with a common destiny have been proposed in the “Belt and Road” Initiative. What do you think of the “Belt and Road” Initiative under the “disintegration” trend?

**Wan Guanghua:** The current content of the Belt and Road Initiative focuses on the “five connections”: connection in terms of policy, infrastructure, trade, capital and people’s support. Compared with the general trade integration, the Belt and Road Initiative displays more new ideas and increasingly wider scope. At present, the connection in infrastructure construction and trade develops rapidly while that in policy

and people's support shows no significant development. As far as I am concerned, however, the "Belt and Road" Initiative will be supported by more and more countries with the current changes in the international situation, and then promote the formation of a new and better trading system than the WTO framework, which is my expectation. Based on the basic trade pattern and evolution trend from 2005 to 2014, the import and export growth rate was generally higher than the global average and the import and export share exceeded 1/3 of the world in countries along the "Belt and Road" which were important export destinations in the world. During this period, there emerged a more obvious centralization trend both in export and import. In addition to China, Russia, India, Singapore and other countries played a dominant role in the import and export of goods along the "Belt and Road" and their support is of great significance in the development of the "Belt and Road" Initiative. Despite the trade competitions among the countries along, trade complementarity still transcends trade competition.

The current international trend is de-globalization which is typically represented by the trade war between China and the United States. On March 15 this year, when the United States had not issued the \$ 50-billion taxation list of Chinese exports, I assumed that this war was inevitable, which has turned out to be true. As a matter of fact, the de-globalization has appeared in other regions, including those in Europe and Asia. Consequently, obstacles or difficulties do exist in the development of the "Belt and Road" Initiative, but the prospect is still bright if China can promote the construction of the "Belt and Road" by taking a good grasp of and making a full use of the trade war with the United States.

**Reporter:** The "Belt and Road" Initiative is a new "integration" in progress. The regional cooperation organization EU, which has always been regarded as the most regionally integrated organization, has experienced the refugee crisis, the terrorist attacks, the British referendum and other events. In the aftermath, many media claimed that these new problems were "splitting" the Europe. What do you think of the transformation from the integration into non-integration in these

regions? What is the intrinsic reason and mechanism?

**Wan Guanghua:** The issue of “split-up” is not formed in one day but the result of accumulation over time. Intuitively, the diplomatic and monetary policies of the countries within the EU are unified, but the fiscal policies are not, and big problems exist in the coordination between different countries itself. At a deeper level, the emergence of refugee crisis in the EU and the Brexit in the UK are caused by their corresponding deep-seated reasons: globalization benefits or interests have not been rationally or fairly distributed among different countries and within every country, which is the fundamental reason for disintegration.

Trade freedom and capital flows brought about by globalization may be beneficial to economic growth, but the problem is that few people recognize the potential negative effects of globalization. Brexit is the result of a referendum. The result of the vote is that a slim majority agrees that the UK should withdraw from the EU while nearly half agree that UK should stay in the EU, which reflects that the benefits of globalization and integration are not well distributed within the country. For another example, the refugee crisis partly caused by the globalization has led to the rise of right-wingism in Europe, especially in Eastern Europe. Anti-immigration, anti-globalization, and anti-integration are currently more popular in Europe. This is a real problem and a challenge for China.

**Reporter:** Some believe that the trade war is pushing China into Asia and Europe to some extent and will thus facilitate the progress of “Asia-Europe integration”. What do you think of it? What consequences will the currently popular disintegration trend bring about?

The current situation indicates that many practices of this US administration have given the Chinese government an “opportunity” to occupy the "commanding height" in

morality because many of them are contrary to existing international rules. Therefore, I have always stated that in this Sino-US trade war, China will find it difficult to win in the short-term and economically but will win in the long-term and in non-trade areas, for instance, in the morality. However, whether the scores in morality can be translated into long-term benefits depends on how China responds. From the perspective of integration, the Chinese government is not only pushing for “Asia-Europe integration” but is committed to building a broader “global integration”. It chooses Asia and Europe as the start partly by chance. The Silk Road starts from Asia, goes through Central Asia, and ends in Europe; the Maritime Silk Road starts from Asia and ends in Africa. Geographically, we can see these two roads indicate the connection between Europe and Asia, but in fact, in my opinion, China aims for the global integration and cooperation. As the leader of the world economy and policy maker and implementer, the United States is nevertheless in a “backward” status, and China is consciously or unconsciously pushed to its present position. China, as the largest and most successful developing economy, can advance the next round of globalization on behalf of most countries.

**Reporter:** You once mentioned the emergence of “reverse globalization” and pointed out in some article that Chinese economy has the potential for growth even at the background of reverse globalization. From the perspective of global economic trade, do you think the idea that “globalization is the world trend”, accompanied by the growth of our generation, still applies to the present? What do you think of the relationship between regional integration and globalization and their development in the future world?

**Wan Guanghua:** Personally, I believe that the wave of globalization will find it difficult to “go back” for a far distance but will continue going back for a while. In the long run, I don't worry about globalization going back, because regional and global integration of trade and investment can generally benefit countries. The problem is that

the distribution of these benefits may not be reasonable among countries, especially among domestic groups. It is the effect of globalization that “You can't have your cake and eat it too” that leads to the phenomenon of de-globalization. For example, the current “Sino-US trade war” derives from the uneven income from trade between China and the United States. How to solve this distribution problem? Firstly, it is necessary to make government, society, media and international organizations fully aware of the importance of distribution issues. Secondly, transnational and domestic policies should be introduced to address the problem of income distribution brought about by globalization, namely, designing, developing, and implementing the policies and corresponding institutions and mechanisms for the secondary distribution of global benefits among countries.

**Reporter:** Speaking of the economies in Asia, the media in foreign countries pay more attention to China, Japan and India. What roles do you think these three countries play in Asian integration and “disintegration” process?

**Wan Guanghua:** Actually, I have paid a close attention to India for many years for the following two reasons. In the short term, Sino-Japan cooperation is quite vital; in the long run, Sino-India cooperation is more significant. At present, Japan plays a critical role in Asia, because its total GDP accounts for almost 5%, China for nearly 20% and India for 5-6%. But it is almost impossible for Japan to achieve a rapid growth but possible to recede further; in India, the potential for growth is enormous. As a result, the emphasis should be laid on the Sino-India cooperation, but Japan cannot be neglected as well.

For my money, the Sino-India cooperation is of great importance in the process of Asian integration. Whether China and India can jointly promote economic integration, trade economy and non-economic cooperation between the two countries is crucial to the situation in Asia and even the world. In fact, China and India are very likely to join



hands, because both countries face common challenges, including the most basic food security, energy security, climate, and terrorism. If China and India can really be united, the future world pattern will be completely different. Of course, a series of problems also exist between China and India that need to be studied and dealt with. This is why I have been promoting the study on India in China since 2003 and founded the “Research Center of Indian Ocean Region” years ago in Yunnan.

## Make the Concept of Green Governance Penetrate into Countries along the “Belt and Road”

Reporter: Wei Mengju



**Ma Haibing**

Senior Fellow, Worldwatch Institute

Only when more people believe in their hearts that sustainable development is their intrinsic demand can the country be asked to make more active efforts in this regard.

**Reporter:** The “One Belt, One Road” outbound projects mainly refer to the infrastructure construction, such as transportation and energy equipment. The environmental impact brought by these traditional industries cannot be ignored. Given the diverse and complex ecological environment along the roads, complicated environmental problems may occur while these projects are promoted. How do you think we can deal with the environmental challenges brought by the “Belt and Road”?

**Ma Haibing:** the sub-forum I participated in is the green governance which I think refers to the idea of minimizing the environmental impact in the process of promoting the “Belt and Road”. Green governance can be divided into two levels.

Different from European and American countries, many developing countries are still at the stage of vigorously constructing the infrastructure, so as to provide the electric power and promote the industrialization, and as a result, they are willing to pay environmental costs. At this level, green governance is really good enough because it aims to minimize the environmental impact.

At the second level, for countries with a high level of development, green governance should rise to the concept of sustainable development, because the environmental protection measures for individual projects cure the symptoms, not the disease. It is thus fundamental for those countries to really set their hearts on sustainable development-related industries. First, healthy competition in the industry should be maintained; then every country is willing to develop the environmental protection industries and make them bigger and stronger for their own interests.

**Reporter:** With the development of the “Belt and Road”, the construction of ecological civilization and realization of sustainable development have become the intrinsic requirements of the “Belt and Road” construction. What role do you think Chinese government plays in advancing the green construction of the “Belt and Road”?

**Ma Haibing:** Compared with other countries along the “Belt and Road”, Chinese government displays the largest executive power. Since the Chinese government has proposed such an idea, there must be more advanced and systematic theories and ambitious goals in the top-level structure, but it is really difficult to achieve green and sustainable development at every step from the top-level design to the implementation.

China has no good experience in the past. Many policies are well designed at the central level but may be subject to the checks and balances of local interests and thus go wrong in implementation, which should be taken into consideration in the (top) policy design,

so as to maximize the green benefits with interests distributed in a fair and balanced way. When making decisions, the government needs to consider whether the decision-making process is democratic and integrates the interests of all parties. And when it comes to the policy implementation, the government needs to ask if the set goals can be obtained. There is an intrinsic link between these two stages.

**Reporter:** In recent years, the “anti-globalization” in the international community and the xenophobic nationalism in Western countries have never ceased; and the development of Chinese companies has been resisted to varying degrees. What impacts do you think the voice of “anti-globalization” will exert on the construction of the “Belt and Road”?

**Ma Haibing:** Personally, I do not think that the voice of “anti-globalization” will exert a large influence on the China-led “Belt and Road” construction, mainly because it is unnecessary for China to be utterly subject to the discourse power of the western world when China is strong enough in its economic strength, political strength and military strength. In fact, if the basic design of the “Belt and Road” can be completely implemented, it will help China obtain its discourse power and display a new model different from that in the western world. This new model includes how to deal with the demand relationship and regional relationship.

**Reporter:** It is pointed out in *Guidance on Promoting the Construction of Green “Belt and Road”* that a “pragmatic and efficient eco-environmental cooperation and exchange system” should be established in various economies along the “Belt and Road”. What do you think the key to the establishment of the cooperation and exchange mechanism is?

**Ma Haibing:** As far as I am concerned, China is currently promoting the products of environmental protection companies with good performance to the relevant countries

along the “Belt and Road”, but I think this is only the beginning. In fact, it is also mentioned in this document that our higher goal is to promote the common development of environmental protection concepts in relevant countries. The concept of environmental protection is very important, and without a concept, the systematic design might be deficient. For example, focusing on the product alone may lead to the excessive pursuit of profits to the neglect of the ultimate goal, namely, attending to trifles to the neglect of essentials. Take the solar panel industry as an example. We only pay attention to the product itself but forget the original aspiration of using clean energy, reducing carbon dioxide emissions and improving the environment. However, in actual production, many companies do not control pollution effectively but cause more pollution. It is both contradictory and ironic for the cleaning industry to produce more pollution in the process.

It is strongly advised that the above contradictions should be avoided with caution in the process of promoting the “Belt and Road” because it entails the international influence. The dynamics of the “Belt and Road” has received much attention, and as a result, even the slight mistakes can easily incur various criticisms and form international public pressure. The great international pressure, especially from Europe and the United States, may exert large influence on the political leaders of the “Belt and Road” cooperation countries. They may choose to quit, which will have a great impact on the “Belt and Road” cause.

**Reporter:** As one of the starting points of the 21st Century Maritime Silk Road, Shanghai will build Shanghai’s “Belt and Road” energy and carbon trading market by relying on Shanghai International Energy Trading Center, Shanghai Oil and Gas Trading Center and other platforms. Does this measure set an example in promoting the “Belt and Road” Initiative? Why?

**Ma Haibing:** This measure does play a demonstration role in promoting the

cooperation among countries and regions along the “Belt and Road” in the financial and service industries, because it is already beyond the level of pure product and trade and involves the basic institution construction of each country. In the institution construction, people’s heart counts the most, which embodies an oriental thinking, namely, winning the support of the people from the institutional level and achieving harmony. Although this idea is beautiful, it is also difficult to be implemented. The principles of energy trading and carbon trading markets are easy to be understood, but how do we promote the development of green industries and make the green concepts and sustainable development concepts deeply rooted in people’s heart by employing this market? I think it is rather difficult. It is closely related to the various stages of the current carbon market construction in China. The carbon market itself is just an economic tool, actually quite far from the green cause and sustainable development. Carbon trading does not directly provide companies with greater incentives to reduce overall emissions but just make the process of reducing emissions more efficient.

China goes ahead in the carbon market construction, but this kind of advancement may easily offer (some western countries) “some evidence for their criticism”. China wants to build something leading and develop a model different from the western ones, but it will easily incur some criticism if it is not done well in the implementation process. China must first face this criticism, and at the same time internalize this criticism in the formulation of policies. As long as we explain the difficulties in the construction of the new model, everyone will understand it. In fact, it is also beneficial to properly listen to the opinions from the international community. In general, we must be brave enough to let the world see that China has the responsibility and the ability to open up a different path.

If China is to further promote the concept of “Belt and Road” to the world in the future, the third-party platforms, for instance, some international non-governmental organizations, can be employed. We should inform them of the project progress in a timely manner rather than directly announce the results when the project is completed.

At the same time, such a third party can play a supervisory role. Some data or materials can be properly published on such a platform, and such a candid attitude can help win their favorable impression.

**Reporter:** You once suggested that “China’s green financial system should be in line with the international market”. Do you think whether China’s green financial system can be extended to the Belt and Road Economic Belt or not? How can we integrate it with international relevant policies and those in countries along the “Belt and Road”?

**Ma Haibing:** First of all, green finance is a brand new concept, and as a result, no absolutely good standard exists in the world and everything about it is still explored. The concept of green finance has been introduced in China in recent years and what the central government does at present is to motivate local governments to make more innovations. Green financial service is specific and the specific implementation should be decided according to each specific market. It is not enough to rely solely on the good central top-level design, because the specific implementation conditions cannot be considered. Only by stimulating local governments to use the concept of sustainability as the basis and to understand the principles of the central top-level design can they develop their own ways and create some more financial innovation models according to the model and development law of the local market.

To be honest, the degree of democratization and even the education level in many countries along the “Belt and Road” are not high enough. Therefore, they are less aware of the environmental protection and still focus on products and GDP indicators, which is not conducive to the implementation of the long-term goal of China’s “Belt and Road”. It is obvious that the education projects related to the “Belt and Road” Initiative mainly focus on the basic education and higher education, with a lack of education on advanced concepts of environmental protection. I feel that only when more people

believe in their hearts that sustainable development is their intrinsic demand can the invested country be asked to make more active efforts in this regard. However, it is difficult and time-consuming to internalize the concept of green development into education.

**Reporter:** Countries along the “Belt and Road”, mostly emerging economies and developing countries, are generally faced with multiple challenges such as environmental pollution and ecological degradation brought about by industrialization and global industrial transfer. What opportunities do you think will these challenges bring for China’s environmental protection enterprises?

**Ma Haibing:** I think this is an opportunity for common development because China has many environmental problems as well. Especially in the past 20 years, with the rapid economic development, the pollution of soil, water and air, including desertification, has exacerbated. Therefore, many environmental protection companies in China are experienced in dealing with these problems. These companies can establish a partnership with the cooperative countries to cultivate local enterprises and industrial parks and jointly expand the market. In countries along the “Belt and Road”, especially those in the Middle East, the puzzle about how to make the desert richer exists. During the cooperation with other countries, it is necessary to first find the goal of common development, start from the common point of interest and then design the project based on local environmental policies and backgrounds.

In addition to experience, China’s companies also have the technology reserves, which indicates that these companies can simultaneously output ideas and technologies. We can adopt the model of joint venture or even a technology-based shareholding model to cultivate local businesses and talents. This model will certainly be welcomed, because it opens the markets and builds the technical dependence in local countries. Moreover, the development of the international market (in the environmental protection industry)



can also be used to trigger the development of the domestic market. If these industries develop well in the international market, they will certainly draw more attention in China.

# Green Governance in the “Belt and Road” Initiative from Coordination of Environmental Standards to Disclosure of Environmental Information

Reporter: Zhang Junhao



**Shi Zhengfang**

**Environmental Specialist , International Finance Corporation (IFC), World Bank Group**

*Environmental standards should be unified, which can be achieved in both principle and spirit, but with difficulties in the unification of execution and details.*

**Reporter:** The “Belt and Road” Initiative (BRI) focuses on infrastructure construction and investment enterprises are mainly from traditional industries such as steel, cement and energy equipment, which have impacts that cannot be ignored on the environment given the nature of business. How do you think about this?

**Shi Zhengfang:** We should view the BRI from a broader perspective. The BRI is a win-win model expected by all countries and represents the desire for common development, rather than being interpreted as something involving investment and construction by China alone. China plays a leading role in the BRI, but Chinese enterprises should remain oriented towards goals and demands of other countries and abide by their development strategies in the course of “going global”. This is the presupposition of

analyzing this issue.

In respect of environmental governance, we should first pay attention to environment standard systems adopted by different countries. Local governments will determine the industries to be introduced through a number of environmental impact assessments (EIAs) based on their respective environmental capacity background values and further decide the scale of projects to be introduced and standards and requirements for these projects. In ecologically fragile areas, local governments will give special considerations to the introduction of investment. In fact, infrastructure construction is only a part of the BRI and investment enterprises are not limited to infrastructure enterprises, but also include service and manufacturing enterprises.

Generally, having an understanding of environmental standards in investment destinations underlies the investment.

**Reporter:** There are many low- and middle-income countries along the “Belt and Road”. What impacts do you think the level of social development will have on the formulation of environmental standards in an investment destination?

**Shi Zhengfang:** To answer this question, we have to put ourselves in the position of such investment destination. It is because of the complexity of environmental issues that local governments must consider multiple factors when formulating standards, which often need to make analysis from the perspective of environmental economics, measure the overall level of social development and take into account the highest governance efficiency at the current level of technology. Besides, in specific projects, local governments should strive to optimize the economic cost and ensure the maximum environmental benefits at the lowest cost on pollution control. Local governments cannot finally determine the industries and enterprises to be introduced and areas to be developed until all these basic judgments are completed.

**Reporter:** What environmental standards do you think Chinese enterprises “going global” should observe?

**Shi Zhengfang:** Apart from standards prevailing in investment destinations as mentioned above, Chinese enterprises “going global” should also develop some standards based on their own considerations about environmental governance. Reference can be made to Chinese standards, standards prevailing in investment destinations or international best standards, such as index systems put forward by World Bank (WB), International Finance Corporation (IFC) and other international organizations. Selection of standards should be made from an enterprise perspective.

From the perspective of international organizations, transnational investment enterprises should refer to the highest standards in pollution control and social impacts management. However, in practical operation, they should determine the rigorousness of standard execution based on the nature of business, for example, high-pollution industries or low-pollution industries given potential environmental impacts.

**Reporter:** As an environmentalist in an international organization, can you briefly introduce the environmental governance standards of IFC you are working for?

**Shi Zhengfang:** As I have mentioned before, there will be different standards developed by different parties in the construction of the “Belt and Road”. International organizations also have their own standard systems. IFC, which I am working for, has in place a set of performance standards for investment projects, which have been widely recognized by the UN, investment destinations and other international organizations. Unlike the WB which only makes investments guaranteed by governments in public sectors, IFC is making more complex investments—more diversified in respect of

investee, form of investment, investment scale, type of industries invested, so it poses higher requirements on sound management system and performance standards. IFC has separate performance standards for the organization itself and its customers (enterprises or financial institutions), specifically including eight dimensions such as environmental impact self-assessment ability, resource utilization efficiency and pollution prevention and control ability. Political regulations of a state are designed for government regulation, but our performance standards provide a more applicable framework for enterprises or financial institutions, so that they can carry out specific analysis in the framework before and during a project.

**Reporter:** Do you think if different environmental standards can be coordinated and unified in the construction of the “Belt and Road”? Why?

**Shi Zhengfang:** Standards should be unified, which can be achieved in both principle and spirit, but in my opinion, there are difficulties in the unification of execution and details. Especially at the national level, different countries or regions have different policies and as I have mentioned above, each country develops its own environmental standards based on its national conditions and the current level of economic development. Standards provided by some international organizations such as WB, IFC, Asian Infrastructure Investment Bank (AIIB) and Asian Development Bank (ADB) are for information only, which might help the unification of standards, but will not completely apply.

On the other hand, environmental standards should be viewed in a broader sense. Some are specific values that can be worked out based on scientific research, like emission standards, but many social standards can hardly be quantified and vary from jurisdiction to jurisdiction, which adds difficulty to the unification of standards. We might define a common target or expected results for this type of standards and meeting such expectations can be considered as meeting such standards.

**Reporter:** How do you think we should guarantee open and transparent environmental information in the construction of the “Belt and Road”? And how should be avoid information asymmetry?

**Shi Zhengfang:** I think the disclosure of environmental information can be achieved at three levels.

Firstly, at the national level, each country should have a legal environment as the foundation. In China, for example, the current Environmental Protection Law explicitly requires environmental authorities at all levels to actively disclose environmental information, including information on environmental information, environmental monitoring, etc.

Secondly, at the level of multinational corporations, they are obliged to actively disclose environmental information regarding their investment projects at varying degrees. IFC has relatively high requirements for information disclosure in that it not only publishes projects invested, but also requires project participants (enterprises) to develop an information disclosure mechanism and publishes relevant information in communities where these projects are located.

Thirdly, at the level of non-governmental organizations (NGOs), individual involvement will place disclosure of environmental information under supervision. Because instead of the government and enterprises, environmental impacts of investment projects will directly act on the public. In countries along the BRI, some have very active NGOs while some do not. Although development varies from country to country, voices from NGOs should generally be encouraged. Nevertheless, broad social engagement cannot be achieved without environmental information actively disclosed by the government and enterprises; there is an internal relation between the

two.

Something else important to the disclosure of environmental information, I think, is the combination with public education. It is not enough to have access to public information; more importantly, the information should be well understood. Most ordinary people might have no expertise. A straightaway method, like the color-marking method, can help effectively express whether enterprise emissions meet relevant standards or whether a project complies with relevant standards and facilitate communication.

Therefore, it is far from enough to disclose environmental information. We should consider more, for example, where to disclose, how to ensure the correctness of disclosed information, how to understand the information or subsequently how the public can make use of disclosed information to protect their rights and interests. We should think about the disclosure of environmental information more deeply.

**Reporter:** China has been actively introducing the idea of “green finance” into the BRI. What do you think about that?

**Shi Zhengfang:** First of all, we should define “green finance” more precisely. “Green finance” consists mainly of two parts. On the one hand, it requires projects to be sustainable, so as to prevent projects from negatively impacting the environment or society and ensure that projects can be advanced normally. This is the bottom line for investment enterprises. On the other hand, it requires projects to bring positive environmental benefits, solve environmental problems and improve environmental quality on the premise that they meet the minimum standard.

In introducing the idea of “green finance” into the BRI, China should take into account the two parts. If investment enterprises can be prevented from ruining local environment and hold fast to the bottom line in the implementation of projects through

government regulation, I think there is already half success; if the country can energetically promote some green projects on this basis to help improve the environmental quality where investment flows, there is success. In fact, China is doing well in this respect as our government departments, China Banking Regulatory Commission and the Central Bank encourage Chinese enterprises “going global” to actively participate in the improvement of local environment.



## The Construction of Science and Technology Innovation Center in the Process of Innovation “De-centralization”

Reporter: Sun Yutong



### Li Wan

The Director of China Science and Technology Policy Research Association, the Director of Technical Foresight Professional Committee, and the Deputy Director and Researcher of Shanghai Scientific Research Institute.

With the maturing of Internet technology, innovation has shown a trend of de-centralization. Some of the original laws surrounding the whole center are being broken and new ones need to be established. The science and technology innovation center was called “center” previously. However, we may now call it “hub” because it serves as a hub. It is not to centralize the regions, but is to realize more smooth connection between the nodes of the whole system.

**Reporter:** According to KPMG’s 2018 Global Science and Technology Innovation Report, Shanghai is expected to be the first leading science and technology innovation center besides Silicon Valley and San Francisco. Factors driving people to regard a city as a science and technology innovation center include favorable government policies, construction of science and technology parks, etc. What do you think are the key factors? Why did Shanghai rank the top in this ranking?

**Li Wan:** we have also made a similar report on the index of scientific and technological

innovation. It mainly believes that there are five "forces", including the concentration of innovative resources, the originality of innovative achievements, the competitiveness of innovative industries, the driving force to the surrounding areas, the attraction to the innovative environment. In the opinion of KPMG, there are five reasons for Shanghai's first place in this ranking. First of all, Shanghai is an economic center. Economic activity is a basic condition. Shanghai has relatively complete and rich product categories as well as technical foundation. Moreover, there is a considerable demand. Based on this, new scientific and technological products can take the lead in demonstration and application in Shanghai.

Then, Shanghai is a financial center. It can provide enough loan market and capital market.

The third is the cultural atmosphere of Shanghai, such as Shanghai-style culture and Jiangnan culture. Such cultural accumulation provides Shanghai numerous opportunities to win talents. Many R & D personnel have diverse cultural aspirations, especially in a more elegant way. Shanghai has huge cultural space as well as plentiful excellent performing talents and performances, which attracts R & D personnel.

The fourth is good natural and urban ecological environment. As a coastal city, Shanghai has relatively pleasant climate.

Finally, Shanghai has relatively intensive scientific resources. There are many research institutions and universities that can provide trained talents. Coupled with the good design and sense of future of Shanghai's urban space, foreigners who come here feel no stranger to it and feel that the city is diverse and that all talents have are free to give full play to their role.

However, we also argue that development may ultimately depend on economic performance and the influence of enterprises. There shall be typical talents, typical

achievements and typical institutions which are important components of a scientific innovation center. Therefore, while striving for development, Shanghai shall also have an insight to its deficiencies.

**Reporter:** As you said, Shanghai have made certain achievements and accumulated certain experiences in building a scientific and technological innovation center, but there is also a gap. Could you talk about the gap in details?

**Li Wan:** Shanghai's GDP per capita has just broken through 20,000 USD. Although it has reached the level of developed countries, there is still huge gap with international metropolis. The gap is not a simple digital concept, but a gap in competitiveness, industrial structure, talent structure and operating efficiency. In addition, it is still difficult to compare Shanghai's original high-level scientific and technological achievements to those of some cities. Many industries in Shanghai are large but not strong, and there are no enough competitive products.

**Reporter:** Then, what do you think Shanghai can learn from international experiences in building a science and technology innovation center to shorten the gap?

**Li Wan:** it can also be seen that there are different types of international science and technology innovation centers, and their construction paths are also different. But I think there are similarities. The first is that the rise of these innovation centers depends on taking full advantage of the wave of new technological revolution industrial change and a general trend of development. Such an external condition is essential.

Then, all these innovation centers encourage the basic research which is original, forward-looking, strategic and capable of leading an era. Therefore, in this respect, we should gather high-level talents. In the previous layout of scientific research activities,

what we mentioned was serving the national strategy as well as the local economic and social development. But now, we also need to pay attention to the future destiny of mankind, because scientific research can open up a vision for the future only if it concerns the destiny of mankind.

Thirdly, there shall be new types of organization and institutions. Science and technology represent the first productivity and productivity determines the production relationship. Scientific research organizations will inevitably change whenever productivity breaks through and changes. Therefore, we should especially support the operation of this new type of scientific research organization to help it break various boundaries.

Fourthly, the government support is indispensable. The government should serve as patient capital “focusing on cultivation rather than returns”.

The fifth is the right to speak in the field of science and technology that we have often neglected in the past. We are less concerned about the dissemination of science and technology. Although the Shanghai Branch of the Chinese Academy of Sciences has some excellent magazines, we should also pay more attention to some international academic conferences in Shanghai and for the world" and think about the future development of the world in Shanghai. Finally, the results shall be provided to our Chinese enterprises to develop innovative products and then sell them to the world. In this way, our scientific research center will naturally be established.

**Reporter:** The Shanghai Scientific Research Institute where you work serves innovation decision-making as its aim. What do you think is the difference between Beijing and Shanghai in the direction of the construction of science and technology innovation center in the next stage based on the existing achievements of the research institute?

**Li Wan:** This is quite different. Of course, there are also some contents to learn from each other. Beijing has relatively intensive science and education resources, and Zhongguancun has its own characteristics in high-tech industrialization. Shanghai has scientific and educational resources as well as innovation and entrepreneurship. What is important is that it is an old industrial base and has certain manufacturing base. Beijing is more oriented to the whole country. Since Zhongguancun has many sub-parks in the country, it shall go out from Beijing and promote its brand. Shanghai has many global science and technology companies, and we suggest that it is necessary to make more use of Shanghai's comprehensive and open advantages. The other is that Shanghai's characteristics of “bringing in and going out” are more obvious than Beijing's. For example, the “going out” investment of Shanghai's enterprises the year before last accounted for about one seventh of the total national “going out” investment. Moreover, a large part of it was the foreign investments in R & D and innovation including mergers and acquisitions of foreign R & D institutions and foreign innovative companies, etc. In general, Shanghai is more open.

**Reporter:** In an interview, Tim Gini, KPMG's Technology Industry Director, argued that “innovation has shown a trend of de-centralization”, which seems to contradict the construction of a technology innovation center we mentioned. What do you think of the “de-centralization” of innovation?

**Li Wan:** “De-centralization” does not mean the absence of the center. It can be understood from three levels. The first level is related to the innovation 3.0 we have mentioned. Innovation 3.0 is actually called embedded innovation. Innovation 1.0 refers to the closed innovation implemented by enterprises, research institutes and universities and characterized by the linear mode of technology research and development; innovation 2.0 refers to collaborative innovation and open innovation characterized by industry-university-research cooperation; innovation 3.0 is not only a

combination of industry, university and research, but also more in the form of crowd funding and public innovation. As a result, it will be more widely distributed in terms of geographical space. Of course, one of its prerequisites is that the Internet-related technologies are growing mature. Therefore, the “de-centralization” at this level is to bring in more people’s ideas through the Internet, which is actually an important influence brought about by the Internet.

Then, we come to the second level of “de-centralization”. We are now in the process of the new technological revolution industrial change, and many new things have emerged in a large number of technical fields. This kind of new things cannot be developed through centralized research carried out by many large companies previously. At present, small and medium-sized enterprises and more entrepreneurial teams are encouraged to make a lot of trials and errors, which shows the difference. At the same time, many large enterprises also carry out mergers and acquisitions while doing their own research and development innovation. I think this is the change at the second level.

The third level can be understood in this way. In the course of the technological revolution, some of the original rules surrounding the whole center are being broken. In other words, new rules are to be established. Therefore, there are also great breakthroughs in the geographical space, the scope of enterprises and the boundaries of enterprises. In terms of the development of science and technology, the boundaries are also broken through, which presents a network structure. Although we called original and technological innovation center “center”, we call it “hub” now because it serves as a hub. It is not to centralize the regions, but is to realize more smooth connection between the nodes of the whole system. Therefore, although we have always regarded Shanghai as a scientific and technological innovation center, it is in fact also a hub. We emphasize that Shanghai’s significance to the Yangtze River Delta lies not in the “center” of the industrial era, but in its interaction of the Yangtze River Delta. In this way, Shanghai will have a more powerful service function.

Moreover, since current science and technologies are much more complicated than the technology system 10 years ago and 50 years ago, the current research and developments can be regarded "polarized". On the one hand, the research and development like EURATOM's (European Atomic Energy Community) nuclear fusion has extremely high investment conservatively estimated at more than 10 billion USD or more. On the other hand, innovation is ubiquitous. Since knowledge sharing becomes convenient, there are many generalized innovations. In conclusion, the "de-centralization" for me is that for a city, especially for a city with the highest economic ranking, its inclusiveness, internal innovation, species richness, and the abundance of innovative ecology and innovative rainforest will provide it more opportunities to win the agglomeration for future research and development innovation on the contrary.

Moreover, with the development of transportation technology, technological innovation can be more de-centralized. This de-centralization does not subvert the scale effect of the original research and development, but can actually make better use of the scale effect on a larger scale. For example, there were 600,000 people doing research and development in Shanghai. And now, the transportation is so convenient that people in the surrounding cities can also be included. Therefore, the spatial scale is also changing. "De-centralization" is actually a very good opportunity for most cities.

**To Guarantee the Match between Green Investment Income and Risk by Adopting the Legal and Market-oriented Means**  
**– To Develop China’s High-quality Green Finance**

Reporter: Du Anshu



**Zhang Junjie**

Director of Environment Research Center and associate professor of Nicholas School of the Environment, Duke Kunshan University

Green finance has been introduced to the G20 summit as a new concept and the establishment of a green financial system has risen to China's national strategy. Green finance is also an important economic tool for China to achieve green transformation. To achieve green finance development not only requires the guidance of the Chinese government but also the private capital investment. The Chinese government's concern for and determination to deal with environmental issues have brought a good start for the development of green finance, and the two cores of further stably developing it are to strengthen the establishment of legal policies and realize the benefits of green investment and safeguard investor risks. China's investment in the "Belt and Road" Initiative is also a bright point for the development of green finance. The construction of the high-environment-standard infrastructure can bring environmental benefits and incite international capital investment.



**Reporter:** Environmental benefits need to be taken into account in investment and financing activities so as to achieve green finance. However, this type of investment involves environmental externalities, environmental risks, and low interim and short-term returns. What do you think are the ways to implement green investors' returns?

**Zhang Junjie:** The main reason for the low return on green investment is that investors cannot get real returns in terms of social and environmental benefits in the process of investing in green projects. Therefore, the key to ensuring the reasonable return of green investors and the core of realizing green finance is to realize the internalization of externalities, specifically to internalize the negative externalities into the investment costs of enterprises, and to return the social and environmental benefits brought by positive externalities to the investors. To this end, we can rely on two forces. The first one is the market. However, externality is the cause of market failure and a drawback of the market. At present, only a few enterprises voluntarily realize the internalization of externalities due to social responsibility, for example, some companies actively use renewable energy. The second one is the government, since the key lies in the formulation of appropriate green financial policies that can be widely used in various industries. Especially given China's national conditions, the formulation of the green policy is the foundation for internalizing pollution costs and green returns and the main driving force for promoting green finance. It mainly focuses on strengthening law enforcement to increase the cost of polluting enterprises and promoting the new normal of environmental compliance to improve the returns of green enterprises. At present, the eight ministries and commissions have jointly issued guidance documents, for instance, *Guidance on Building a Green Financial System*, which has vigorously promoted the development of China's green finance.

**Reporter:** Do you think it is now the right time to promote green finance in

## China?

**Zhang Junjie:** Now it is a good timing. In the past, the sector of environmental protection was relatively weak and insufficient in its law enforcement power, because the environmental protection often gave way to economic development. However, in recent years, China's determination on environmental governance has been continuously strengthened, environmental supervision has been continuously enhanced, law enforcement has been continuously increased, local governments have been strictly investigated, and polluting enterprises have been severely punished. In particular, the Central Environmental Protection Inspector Group was established in 2016 in China and the central government resorts to party discipline to implement the effects of inspections in various places, thereby ensuring strong law enforcement capabilities and information disclosure.

The development core of green finance is that the government formulates the reasonable policies that can change the cost comparison between green investment and polluting investment and thus enable green investment to gain a comparative advantage in the fair market competition. Therefore, only by increasing the means and strength of law enforcement to enlarge the pollution cost of enterprises, and formulating policies to implement the product income of green enterprises can green finance be effectively implemented. At the background when the central government is determined to control pollution by a strong hand and help a large number of polluting enterprises transform, green finance was included in the topics of Hangzhou G20 Summit in 2016, which promoted the development of green finance to the national strategic level. On the whole, the promotion of green finance in China at present is indicative of bright development prospects.

**Reporter:** Social private capital is an important part of green financial development. In order to achieve the sound operation of green finance, what

methods do you think can improve the enthusiasm and sustainability of social capital investment in green industries?

**Zhang Junjie:** The key to mobilizing the enthusiasm of private capital is to make enterprises interested in green finance. To this end, we need first of all to ensure that the positive external benefits brought by the investment of social sectors in green industries can be internalized into the profits of enterprises. Secondly, it is necessary to reduce the investment risk of green industry as much as possible. The related fields invested by green finance, such as pollution control, infrastructure construction and development and utilization of new energy, all involve long-term investment process, but the social sector prefers to invest in fields that can produce short-term returns, which requires the green financial policy to solve the mismatch of the investment length. In addition, when a project with the new environmental protection concept emerges, private investors may face a large risk. In response to this problem, policy support for projects with high environmental benefits can be appropriately promoted to attract long-term investment in the social sector, thereby developing new projects with high risks at present that can bring many benefits over the long term.

**Reporter:** A series of complex problems such as environmental risk assessment, environmental data quality and small and medium-sized polluting enterprises exist in the construction of a green financial system. What do you think is the key to solving such comprehensive problems?

**Zhang Junjie:** First of all, banks have actual needs for the green financial system. In addition to the related state policies requiring banks to establish a green financial system, banks have their spontaneous demand for such as system. With the increasing requirements for enterprises in pollution and environment in China, banks face larger risks when providing loans for polluting enterprises. Therefore, banks themselves are motivated to build a green financial system and the best way is to assess enterprises’

environmental risks through green credit ratings and help banks reduce credit risks caused by the regulation. The environmental credit evaluation system already established in China can be used as an important basis for loans and an effective tool for implementing green finance.

Secondly, the quality of environmental data is the information base for implementing green finance. In order to guarantee the quality of environmental data reported by enterprises, the relevant leaders of the enterprise must be responsible for the data to make sure that whoever signs takes the responsibility, and insiders are also encouraged to report. The reason for the poor quality of China's environmental data is that the punishment for fraud in China's statistical system is not severe enough. Except some problems that have caused widespread concern of the masses, most enterprises are not subject to corresponding serious consequences after their data frauds are discovered, which makes them devoid of the motivation to report real data. This problem should be solved from the legal level.

Thirdly, in response to the problem that the law does not punish numerous small and medium-sized polluting enterprises, China has been vigorously promoting environmental compliance and law enforcement so as to achieve the gridded management, give full play to the local government's environmental responsibility and improve environmental management efficiency. With the strictness of environmental protection inspection, many small and medium-sized polluting enterprises no longer produce products; with the stricter environmental protection examination and approval in China, it is difficult for these bankrupt enterprises to be reconstructed. In this way, polluting enterprises are prevented at the source and the existing ones are encouraged to undergo the green transformation.

**Reporter:** Developing countries, for example, China, often refer to developed countries in handling environmental issues and concepts. After the G20 Summit, what cooperation can China carry out internationally to develop green finance?

**Zhang Junjie:** At present, the international green financial investment mainly adopts the form of green bonds. In general, countries issue green debts in developed countries to obtain investment because developed countries are more dominant in the capital market and environmental standards. The potential bright point in China is to carry out international green financial cooperation in the “Belt and Road” Initiative. Countries along the “Belt and Road” are mainly pollution-intensive countries and need to solve infrastructure problems, so they have a potential demand for green finance.

In the process of implementing the “Belt and Road” initiative, risks of environmental and social problems often occur in the field of infrastructure construction. If the investment is made through green finance and the highly environmentally compliant infrastructure is built, the investment risk can be effectively reduced. For example, the Jamshawo thermal power station invested by China in Pakistan adopts the world’s advanced emission standards, a green investment that can reduce the pollution level while ensuring economy. Therefore, the development of China’s green finance in the “Belt and Road” deserves our attention, because it can not only achieve the minimum environmental impact but also incite investment from the international community.

**Reporter:** What do you think is the largest obstacle in the process of developing the green finance in China?

**Zhang Junjie:** The environmental legal system in China is not mature yet. In recent years, the environmental law enforcement has been greatly enhanced through party discipline, but the seriousness of environmental law has not yet been fully established. Many of the environmental problems at this stage in China are related to the incomplete guarantee of legal system. Therefore, it is necessary to set up the tradition of environmental legal system. In the past, a large number of polluting enterprises conducted their business under the acquiescence of local governments. Such problems

can be fundamentally solved only by establishing a strict legal system. For example, local governments should make the punishment harsher to make these enterprises submit correct data, not put local polluting enterprises under their protection any longer and establish a strict and transparent environmental law enforcement system which is not only the long-term guarantee for the development of green finance in China but also the guarantee for realizing China's green transformation. .

**Reporter:** In terms of the government's promotion for the green finance development, what do you think we can learn from the United States? How does the U.S. withdrawal from the Paris Agreement affect China's development of green finance?

**Zhang Junjie:** the U.S. Department of Energy has issued a renewable energy loan guarantee policy, that is, the government screens out some companies for guarantees, and companies that receive guarantees can obtain large loans from banks. However, this policy is full of controversy because it violates the fairness principle of market competition. As a result, the green finance is mainly promoted in the bottom-up model in developed countries, for instance, the United States, that is, enterprises promote green finance spontaneously. In fact, the United States has a relatively complete system of rule of law which guarantees that environmental protection is an important part of American companies and thus ensures the viability of enterprises to promote green finance spontaneously.

The Trump administration's withdrawal from the Paris Agreement is a huge retrogression in global climate governance. Although the U.S. federal government has adopted a negative attitude toward climate change, many private sectors are still spontaneously taking measures to deal with global climate change. The withdrawal of the United States from the Paris Agreement should not affect China's determination to participate in global climate governance. China's response to climate change and the

development of green finance is based on self-interest considerations. To achieve green transformation is more conducive to China's development in the long run and as a result, I do not think that the U.S. withdrawal from the Paris Agreement will have an impact on China.

# Cooperation among China, Russia and Central Asia Demands

## More Confidence and Patience

Reporter: Zhao Jianing



**Qiang Xiaoyun**

Deputy Director, Center for Russian & Central Asian Studies,  
Shanghai Institutes for International Studies

Against the backdrop of de-integration and de-globalization in the West, cooperation among China, Russia and Central Asia and integration of the three are still making progress. Geographical proximity, profound historical and cultural origins, common interest demands and concerns as well as bilateral and multilateral friendly political trust constitute the solid foundation of win-win cooperation among China, Russia and Central Asia. Following basic principles such as “resonance”, “equal joint development” and inclusiveness, Europe and Asia have witnessed constant progress in shared growth through discussion and collaboration. We should have more confidence and patience in the face of difficulties and doubts.

**Reporter:** China has been constantly promoting cooperation and mutual trust with Russia and Central Asia in recent years based on economic unity in the “Belt and Road” Initiative (BRI) and security cooperation advocated by Shanghai Cooperation Organization (SCO). What do you think about the significance of Central Asia to China and Russia in the current international situation? What are



### the foundation and impetus for the cooperation among the three?

**Qiang Xiaoyun:** Central Asia is of great significance to both China and Russia; the cooperation among China, Russia and Central Asia presents a historical origin and common interests in real development, and is established on the basic premise of political relations of friendship and mutual trust, so it is natural and necessary to promote such cooperation.

For China, Central Asia is an overland neighbor, so stability in this region is always significant to China's security and stability; economically, bilateral and multilateral cooperation in energy, commerce & trade and infrastructure is also constantly advancing. For Central Asian countries, "Silk Road" is a historical term, which represents how they actively participated in "internationalization" and went to the outside world in history; on the other hand, China and the Soviet Union maintained good relations for a time in history, so Central Asian countries, which were the Soviet republics, have historical emotions for China. Economically, with the development of China's economy, China's trade with Central Asia is increasing; Central Asia is an important source of China's oil and gas imports while China is the largest or second largest trade partner of most Central Asian countries, indicating that the two are economically dependent on each other. In the long run, Central Asian countries are faced with economic and industrial transformation at home, for which China is able to cooperate in funding and production capacity; Central Asian countries also expect to obtain financial and technical support from China to promote the construction and transformation of their industrial systems, which makes long-term cooperation between the two possible.

Central Asia is of more historical significance to Russia. In Soviet times, today's Central Asian countries were a part of the Soviet Union; Russian was a main language and medium of communication between different countries and nationalities in Central

Asia. Nowadays, Central Asian countries are member states of such Russia-led regional multilateral mechanisms as Eurasian Economic Union (EEU) and Collective Security Treaty Organization (CSTO). Given geographical proximity, historical cultural traditions and exchanges, Central Asia is the top priority in Russian diplomatic policy; in each diplomatic strategic conception, Russia always gives top priority to relations with the Commonwealth of Independent States (CIS). This remains the basic interest of Russia regardless of how the outside world changes.

Friendship and mutual trust in bilateral and multilateral political relations among China, Russia and Central Asia are the major premise of cooperation. Only with friendly political relations, deep communication and cooperation in other aspects will be possible, thus laying a solid foundation for cooperation among China, Russia and Central Asia. China and Russia have established a comprehensive strategic partnership and maintained friendship, which also facilitates other countries in this region to realize their own benefits. It is natural for China, Russia and Central Asia to enter into cooperation as all of them are willing to cooperate and there are objective conditions for cooperation.

**Reporter:** Some scholars mentioned in a sub-forum that conflict and game between China and Russia in Central Asia were a great challenge for the integration of China, Russia and Central Asia. Traditional geopolitics shows competition between China and Russia in Central Asia, but what attitudes do China and Russia actually have towards each other in their Eurasian policies? How do you think about China-Russia relations in cooperation and integration in the Eurasian region?

**Qiang Xiaoyun:** I would rather describe China-Russia cooperation in Central Asia as “participation” than terms such as “competition”, “game” or “expansion”. Participation in Central Asian affairs not only conforms to interest demands of the two powers in this

region, but also serves development demands of other countries in this region. In the Eurasian region, China and Russia actually play a role as “stabilizer” or “ballast stone”; China and Russia share the demand for maintaining external security and stability and are willing to promote regional stability, so they will play a key role in maintaining stability in this region.

There is inevitably competition between Chinese and Russian factors in economy, but leaders of both countries have a strategic insight and consciously prevent such economic competition from being politicized. “Conflict” or “game” means there must be a loser and a winner, not a win-win result, which subjectively “forms” opposition—such a Western traditional logic of “cold war” prejudices regional cooperation. Based on geographical and historical origins and common interests nowadays, to promote China-Russia cooperation in Central Asia is an inevitable choice and requires the two to “stay true to their original intentions” and find more common grounds with stronger confidence. Therefore, China and Russia most often do a lot but speak little with respect to their cooperation in Central Asia; contentions and doubts without realistic basis are meaningless, since people only care about and recognize what have been done.

**Reporter:** Shaymelganov, a member of the Public Advisory Committee, Ministry of Foreign Affairs of Kazakhstan, once publicly recognized opportunities and considerable development China had brought to Kazakhstan since it launched the BRI, but inevitably the BRI is also faced with doubts and contentions. With the advancement of the BRI, what progress has there been in China’s Eurasian policy in recent years? How do officials and ordinary people in Central Asian countries view the BRI?

**Qiang Xiaoyun:** Official trust between China and Russia and Central Asian countries is very high. Having entered into a strategic partnership, China and Russia carry out increasing bilateral and multilateral economic and trade exchanges in Central Asia. In

view of regional cooperation mechanisms, all Central countries, other than Turkmenistan which is a permanent neutral state, are full members of SCO, with security, political and military trust reaching its highest level in history.

Both the Chinese and China have left a positive impression on the vast majority of the people in Central Asia. At present, authorities of China and Central Asian countries intend to promote non-governmental exchanges in education, academics, culture, transportation and other aspects, so as to boost mutual understanding and trust between people from the two. In respect of education, the number of Kazakhstan students in China was 11,000 while that of Russian students in China was 20,000-30,000 in 2016; such preference of students from Central Asian countries and Russia to China partly reflects their trust in and affirmation of China. In respect of academics, forums, symposiums and academic exchanges on regional relations in Eurasia and the BRI are in general held frequently; in respect of transportation, there are obviously more Chinese flights to Russia and main cities in Central Asian countries, providing convenient transportation for people-to-people exchanges.

**Reporter:** The U.S. proposed the “New Silk Road” program for Eurasia to advance regional economic cooperation in the region and implement its “rebalance to the Asia-Pacific” strategy. What are the differences between China’s policy towards Eurasia and those of the U.S. and other countries? How do you view the basic meaning and value orientation of China’s policy towards Eurasia?

**Qiang Xiaoyun:** The core of China’s policy towards Eurasia is the “three-not” principle, namely not seeking regional leadership, not creating sphere of influence and not intervening in internal affairs. In the course of exchange, China respects the interests of the other—Central Asian countries and the interests of Russia in Central Asia. Secondly, China sticks to principles such as “mutual benefit and a win-win result” and

“equality and joint efforts”, and stresses achieving common growth through discussion and collaboration. In both the advancement of the BRI and bilateral cooperation in economy, trade and security, communication and consultation are encouraged with respect to appeals of different countries and even problems and disagreements if any in the implementation of specific projects. China abstains from “unity of command”, requires no Central Asian countries to act according to China’s policy and insists on equality, mutual benefit and win-win cooperation.

China also pursues the principle of “inclusiveness”. China not only accepts whatever benefits it, but also takes in ideas of Central Asian countries. When coordinating strategies with Central Asian countries, China listens to different appeals of different countries, allows them to have different ideas and advocates that all parties may find the greatest common divisor or the intersection of interests through communication.

**Reporter:** China’s BRI and the Russia-led EEU are different in the leading power, but coincide in the region and members; apart from this, there are many different integration mechanisms in Eurasia. Do you think these integration mechanisms in Eurasia intend to be “fragmented”? How can different integration models in this region coordinate with each other?

**Qiang Xiaoyun:** They are partly “fragmented”, but this is not the mainstream or trend of cooperation in Eurasia; such “fragmentation” can be solved through coordination, because countries in this region desire regional development and stability, and the centripetal force of different mechanisms is greater than the centrifugal force—“fragmentation” is neither an aim nor a necessary result, but an interlude in the exploration into the model of cooperation and integration by Eurasian countries. “Fragmentation” definitely undermines peace and collaboration, and the common aspiration for better development and endogenous demand for cooperation are the foundation and impetus for cooperation and conflict resolution among different

mechanisms. China and Russia play a key role in the major international mechanisms in Central Asia and thus can strive to coordinate these different mechanisms.

**Reporter:** With the development of regional cooperation among China, Russia and Central Asia so far, how do you view the greatest opportunity and challenge for China and Russia to advance their policies towards Eurasia and promote the bond between Europe and Asia currently?

**Qiang Xiaoyun:** The greatest opportunity comes at the present moment. China and Russia have proposed their own initiatives for regional development and both expect to maintain extensive win-win cooperation in different fields in Central Asia. The common will of achieving a win-win situation amicably is the greatest opportunity to boost cooperation.

I would rather use “difficulty” than “challenge”. On the one hand, there is counter-terrorism and anti-drug pressure in terms of security; on the other hand, there are conflicts in the deepening of economic and trade cooperation. In respect of security, Islamic State (IS) seems to resurge after broken up and Central Asia is a channel of its resurging and spread; drug trade is an important source of income for terrorists and Central Asia is one of the channels whereby drugs spread from Afghanistan to Europe and the globe, thus affecting regional security. Economically, trade standards are not unified and the business environment in Central Asia is to be improved. For example, China-Kyrgyzstan-Uzbekistan Railway is faced with the problem of different gauge and quality standards; China is a WTO member which adopts international standards while some Central Asian countries know little about or cannot well execute these standards, leading to disputes in the implementation of projects. Besides, Central Asian countries vary from each other in governance capacity, so corruption and other problems that affect market order still exist in the business environment in the region, harming the interests of Chinese enterprises there and impairing the passion of Chinese

enterprises for investing and operating there.

Despite a lot of difficulties, they can be solved as long as China, Russia and Central Asian countries have confidence. Confidence and patience are essential for countries and regions in transition. Being impatient prevents us from seeing the nature of problems and then finding relevant solutions; with confidence and patience, we will have less internal and external disturbances, less swings and self-doubts, and be more steadfast in the journey.

**Reporter:** On May 17, China and representatives of EEU member states concluded the Agreement between the People's Republic of China and Eurasian Economic Union on Economic and Trade Cooperation; in June, the SCO Summit will be held in Qingdao. What prospects and new possibilities will these latest developments bring to the cooperation among China, Russia and Central Asia?

**Qiang Xiaoyun:** I think the future will witness constant positive development in generally, such as discussions on some specific matters, further implementation of consensus and agreements that have been concluded and improvement of the cooperation mechanism. Many ministerial meeting mechanisms have been established in the SCO mechanism and cooperation in different fields has been unfolded, concretized and continued, while new problems might be identified in the implementation; confidence and centripetal force of cooperation is not only reflected in the conclusion of the agreement, but also in the implementation of the same. Further, SCO has to increase its popularity, so as to enable people in its member states to truly understand SCO and the benefits it can bring.

Our goal is long-term, but should be attained by steps, which requires us to have more confidence and patience. Countries concerned should calm down and continue to have exchanges and communication on specific issues at different levels amicably and with

mutual trust, find common focuses and identify the greatest common divisor of interest demands, thus promoting constant deepening of cooperation.



## Sticking to Supervision and Control by Government to Promote Smooth Financial and Economic Development under the New Era

Reporter: Zhu Andi



### Du Julan

Professor, Department of Economics, The Chinese University of Hong Kong; Consultant to World Bank in 2000; External Special Appraiser of Financial Courses, The University of Hong Kong since 2003.

In recent years, financial innovations are constantly springing up, and emerging blockchain technology and information technology have made deep influence on the development of China's economy; the development of world economy is ever-changing, bringing endless opportunities for and challenges to China's economy and world economy. Since the 19th CPC National Congress, China's economy has entered a new stage. Under current environment, we should stick to control and supervision of financial and economic development by the CPC and the government, to promote smooth and continuous development of China's economy in the new era.

**Reporter:** In recent years, financial innovations around the world are constantly springing up. Do you think which specific opportunities and challenges China's economy is facing under such a wave?

**Du Julan:** In terms of opportunities, we, with our whole-country system and governance mode as the core foundation, are more suitable to introduce and develop

mature and low-risk innovation modes, and properly introduce fintech innovation products on the basis of China's needs, such as service sector and digital payment, etc.

The challenge lies in that in view of the Central Government's guiding direction for financial work, "to be steady" is the main goal of China's economic development, and main tasks of financial work are control and prevention of risks, which raises higher requirements for regulatory abilities. New financial phenomena occur, but the legal and regulatory environments cannot match the development, liable to cause the Effect of Sheep Flock, fraud and violation of regulations. Secondly, it is hard to control the "degree" between financial innovation and boosting economic stability. Multiple financial crises reveal that improper use of financial instruments may bring on great disaster. Therefore, under the reality that financial innovations develop rapidly, we must maintain the system led by indirect finance, particularly by state-owned banks, which will help the CPC and the government control financial resources, achieve the goal of economic development, firmly hold the leading role of banks, and gradually promote the reform of banking and financial systems.

**Reporter:** Recently, blockchain technology and bitcoin attract extensive attention. Someone thinks that their characteristics lie in "decentralization". Just as you mentioned above, to deal with economic challenges, we need to uphold the control by the CPC and the government. So how do you evaluate the economic activities such as blockchain and bitcoin?

**Du Julan:** Such "decentralization" economic characteristic goes against the thought of our governance. China emphasizes centralized and unified leadership of economic development to control economic risks. The public has great faith in the CPC and the government and always place responsibilities on the government and the CPC. Such financial idea and behavior make the government have to pre-estimate risks that various

innovations may generate, and shoulder very high pressure. Bitcoin is not only obscure in nature, but also may probably lead to various frauds, so it is unsuitable under our control mode. Therefore, whether a specific innovation needs to be implemented should be based on real control mode.

**Reporter:** In the article “Understanding Influences of China’s Economy in the World from the 8·11 Exchange Rate Reform”, you point out that one of the reasons for the turbulence by the 8·11 exchange rate reform is that there was no certain communication with market and transparency before the policy was mapped out. So whether is enhancing policy transparency favorable for the control of economy by the CPC and the government?

**Du Julan:** The turbulence by the 8·11 exchange rate reform was mainly due to the moment shortly after the stock market crash at that time, a sensitive time point. China’s economy features huge volume and becomes increasingly important in terms of world economic growth, and international market shows great concerns about whether China’s economy may slow down and about the negative impacts to world economy. Mapping out RMB depreciation policy at that time without prior communication with market caused strong pessimism of domestic and foreign capital on the development of China’s economy, and triggered invisible capital flight. Having no other choice, the government had to take measures for intervention and control capital outflow, basically stabilizing the exchange rate and exchange expectancy. Only enhancing policy transparency and carrying out necessary communication with market can give better play to influences of the government on the control of economy.

Secondly, the 8·11 exchange rate reform was in fact related to the exchange rate and RMB internationalization, but I personally do not think it is a proper way to promote economic growth through such practice. Whether the currency of a country can be a major international currency depends first on its convertibility and then on other countries’

real needs of the currency with the country expanding in economic aggregate, per capita GDP level, innovation ability, industrial structure upgrading, trade and investment sphere and radiation, then its currency can serve as a hard currency, which is a natural result. If a policy places cause and effect upside down and aims to promote economic growth merely by fueling RMB internationalization, it will be less meaningful in terms of practice.

**Reporter:** According to McKinsey's report, China has led in E-business and digital payment around the world and made very strong influences on world economy. How do you view the point of developing E-business and digital payment to enhance influences of China's economy and give impetus to RMB internationalization?

**Du Julan:** 1. E-business and digital payment is suitable for China's national conditions and Chinese culture at the level of application. First, our cultural and thought foundation is different from Western tradition of individualism. Second, manufacture shrank to certain extent in recent years, leaving many low-cost laborers. If the same case is made against the backdrop of Western countries, the cost will rise sharply, for which less Western countries participate in the practice.

2. E-business is more a micro innovation of business model. Under the situation that manufacture is listless, it can boost economic development. However, overdependence on business model improvement may make negative influences on increase of real production capacity of China's economy. Traditional manufacture mainly relies on processing and assembly, with low profit margin and rising cost, while high-end manufacture strongly depends on government support and foreign markets. E-business attracts the funds due for innovation and basic high-end manufacture into its system, causing insufficient investment in manufacture, particularly high-end manufacture. If the situation lasts for a long time, it will lead to economic hollowization and

commercialization.

**Reporter:** Someone thinks that recent Sino-US trade war reflects the tendency of trade protectionism, but you just pointed out (China's) manufacture in fact depends more on foreign markets. So facing the phenomenon of such "de-globalization", whether will the development of China's economy face more serious challenges?

**Du Julan:** Sino-US trade war aggravates challenges that China's economy needs to deal with. Before the trade war, substantial easing policy was taken at the macro currency supply level, which reflects great concerns of the Central Government about possible negative impacts of the trade war. On the other hand, China's economy depends more on the U.S.A than the U.S.A's dependence on China, many Western manufacturers are shifting their factories to Southeast Asia step by step, and the U.S.A has a strong agriculture, meaning another challenge to the development of agriculture in China. Therefore, the situation raises higher requirements for improving industrial capacity of China.

**Reporter:** So do you think how we can improve industrial capacity under the control by the CPC and the government?

**Du Julan:** First, to improve innovation level, pay attention to gains and costs concurrently and realize continuous update of technologies, which are keys to competition of commodity-oriented products. The government keeps available relevant measures for supporting industrial development, for example, chip industry. The key lies in that it is very hard to judge which level catch-up innovations can reach after gaining government support, which is the point that such commodity-oriented technologies in chip industry are different from atom bomb and hydrogen bomb. The latter is free from purchase-sale relation and just involves the issue "able to make or

not”, while the former relates to commodity purchase-sale exchange and synchronisation.

Second, after realizing approximation of product performance by basing on market economy, how to keep cost advantage in follow-up development and how to produce sustainable self power without needing high investment of the government?, which is the key. Our system should make a difference in dealing with such problems, and is suitable for the government to offer initial power for catch-up technology. In specific execution, however, can the government really make the funds available to the enterprises with relevant strength? Therefore, the safe method is to make investment in state-owned enterprises, which then involves the reform of state-owned enterprises. Do state-owned enterprises have the power to carry out R&D quickly after taking money from the government?

**Reporter:** After the 19th CPC National Congress, almost all China experts think that Chinese state-owned enterprises must be reformed. German *Die Welt* pointed out that, if no measure is taken, Chinese state-owned enterprises will meet difficult situations by 2022 as the latest date. So, according to your viewpoint, in order to avoid falling into difficult situations and improve industrial capacity, how should the state-owned enterprises carry out the reform?

**Du Julan:** Foreign media’s denouncement at the reform of state-owned enterprises highlighted directional contradiction and disorder: there is a contradiction between deleverage and cutting overcapacity and making the enterprises bigger and stronger. The government should carry out the reform of mixed ownership in state-owned enterprises, or execute capital operation rather than specific management and operation. In view of current top-down design, the position of state-owned enterprises will not be shaken and their importance will be further enhanced, as state-owned enterprises and state-owned banks are important approaches for the CPC and the government to regulate and control economy. In practice, however, the unsuccessful

aspect lies in that the government wants to realize holding and have control in practicing the mixed ownership and to attract non-state-owned capital for participation, while the latter's starting point is more of responding to government's call and maintaining agreeable relations with governments at various levels, but less of caring about final returns and the discourse right. For this reason, perfecting the mode is a topic to be explored.

Currently, there are too many state-owned enterprises, and they mainly control key industries and fields of China's major concerns. In recent years, China has also peeled off some state-owned enterprises with poor performance for a long time through privatization. If state-owned enterprises can keep leading and maintain good benefits, they will be helpful to economic development. State-owned enterprises are favorable for control by the government and shoulder social responsibilities and political goals, so they should be considered not purely from the angle of profitability but comprehensively more from a long-term and social angle.

**Reporter:** In terms of “casting off poverty”, you made a brief analysis of roles of regular finance and non-regular finance in the field, and put forward the viewpoint that poverty-stricken families are more liable to gain non-regular financial resources, but the resources often make no substantial influences on solving the problem of poverty. At present, how do you understand poverty alleviation efforts?

**Du Julan:** According to previous data, we find that regular finance and non-regular finance basically work in manner of making perfection still more perfect rather than helping in the families' hour of need. Farmer households' access to loan from the two channels morely depends on their own assets and income, etc. To be further, even though a farmerhousehold gets loan from non-regular financial system, the loan is mostly used for emergencies in life such as disease, marriage and funeral, but less for

real productive activities. The role of loan is a worldwide difficulty, particularly about whether the loan can be used properly. Previously, some countries including Bangladesh implemented petty loan practice, and China has reported similar practice in recent years, but the practice cannot be considered as successful in view of effect.

The “targeted measures to alleviate and eliminate poverty” taken currently work well in terms of direction. The Chinese government undertakes considerably major commitment to people’s livelihood. If more loan providers can give play to role of control and guidance under the leadership of the government, it will be helpful to solving the problem of poverty. The government may face many difficulties in the control, and resources capacity may be bottlenecked, but taking a laissez-faire attitude towards social organizations’ autonomous behaviors may form new contradictions, particularly cause economic disputes, social contradictions and regulatory difficulties in use of the loan for poverty alleviation. Therefore, efforts should be made to both enhance the control and leadership by the CPC and the government and give play to the role of social organizations, so as to solve the problem of resources bottleneck facing the government. As for how to balance the two aspects, further exploration should be conducted.



# Exploitation and Protection of the North Pole in the New Circumstances

Reporter: Chen Siyu



**Li Bingrui**

Deputy Director, Polar Oceanography Division, Polar Research Institute of China

*The North Pole boasts abundant oil and gas resources and therefore should be exploited in a way that guarantees no pollution will be caused to the environment there, so that the North Pole will have a brighter future.*

**Reporter:** How do we observe key indicators such as the temperature of sea ice, changes in the thickness of sea ice and the speed of sea ice melting at present? What do you think are the new technologies that can be applied to this?

**Li Bingrui:** The temperature of sea ice can be measured through remote sensing, but the technology can only measure the surface temperature, while Arctic ice is often several meters thick, so temperature sensor is a better tool. We have deployed buoys around multiyear ice, each of which carries a temperature sensor to record temperatures of Arctic multiyear ice in a three-dimensional manner. A buoy usually has a lifecycle of about a year and indicates changes in the temperature of Arctic ice within this year. The thickness can also be measured through remote sensing, which often gives erroneous measurements, or through buoys. A buoy is installed with two sonar systems, one on the top and the other at the bottom, then the thickness of sea ice can be measured. We can also use a laser altimeter to measure the thickness by first measuring the height of

sea ice above the sea level, that is, the thickness of the freeboard, and then deducing the thickness of the entire sea ice. Apart from these, electromagnetic induction is another option to measure the thickness. So far no mature new technologies have been applied to the measurement of sea ice thickness, but the remote sensing inversion algorithm is being constantly studied and updated.

**Reporter:** Arctic pollution sources are often sent by strong air flows, rivers and ocean currents from low latitudes to the North Pole. Due to its high latitude and low temperature which enable hazardous substances to be easily stored and prevent them from spreading elsewhere, the North Pole becomes a “reservoir” of hazardous substances. Are there some new technologies available to solve this problem?

**Li Bingrui:** The North Pole is now witnessing serious environmental pollution and heavy metals have been detected in the Arctic fishery. Existing technologies can only detect pollution and the problem of Arctic pollution sources cannot be solved unless all countries around the world are committed to environmental protection to reduce pollutants flowing to the North Pole. Only environmental protection is emphasized on a global scale can the North Pole have a brighter future.

**Reporter:** What role does China’s Beidou system play in exploiting and protecting the North Pole? What are the new Chinese technologies and schemes that are being used in the protection of the North Pole?

**Li Bingrui:** Beidou Navigation Satellite System has not covered the North Pole, but presumably it can be applied to Arctic Passage navigation and other fields. China can do nothing in protecting the North Pole as it is controlled by the eight countries within the Arctic Circle due to geopolitical factors and other countries are just observer states.

**Reporter:** What are the gaps between China and countries that do well in polar exploration, such as the U.S., Germany, the UK and Australia, in polar research and protection?

**Li Bingrui:** There are obvious gaps, basically in all aspects. The gap in logistic supply is relatively narrow, but that in scientific research is wide in terms of both the quantity and quality of research results. We are at most a large country engaged in polar exploration and research and have a long way to go to be a great power in this respect.

**Reporter:** Geopolitical competition regarding maritime rights and interests is increasingly intense in the Arctic region. Arctic affairs are inextricably linked to the northern hemisphere, but China is a non-Arctic country, so what are the difficulties for China to exploit and utilize the North Pole? China has become an Arctic observer state, in which ways can this help China exploit and utilize the North Pole in future?

**Li Bingrui:** China is located outside the Arctic Circle, so it is impossible for China to independently exploit the North Pole, but we can cooperate with the Surround-Arctic Nations in exploitation. After China became an observer state of the Arctic Council in 2013, we will have more opportunities to cooperate with member states of the Council in the Arctic exploitation and might cooperate with these states in multiple fields.

**Reporter:** The Arctic Passage is the shortest maritime passage that connects three economic circles including Northeast Asia, Europe and North America. China is one of the most important countries in the global trade system, and over 90% of its trade goods are transported by sea. How should China strategically deploy for the exploitation and utilization of the Arctic Passage?

**Li Bingrui:** We have been watching the Arctic Passage for ages and are developing environmental monitoring and forecasting safeguard systems for the Arctic Passage, in which the Ministry of Science and Technology has offered great support. At present, we have built certain technological basis and reserve and have applied the same to Arctic navigation of COSCO ships.

**Reporter:** Abundant oil & gas, shipping, fishery and other resources at the North Pole attract different countries to try to take a share. What should we do to coordinate resources exploitation and environmental protection?

**Li Bingrui:** Different standards prevail in different seas and countries. The North Pole has rich oil & gas resources, but oil spill and other pollution accidents must not happen in the exploitation, since once such accidents take place, it is hard to control with serious negative impacts. Deicing lasts for only two to three months at the North Pole and if pollutants cannot be cleared away within this period of time, oil contamination will drift and spread along with the ice. Hence, exploitation of the North Pole must be carried out on the premise that no environmental pollution will be caused.

**Reporter:** Polar disputes are getting intensified recently and numerous countries have shown keen interest in the Arctic region. What impacts will these disputes have on polar environment? Do you think it proper to apply the “Antarctic Model” to Arctic governance in future?

**Li Bingrui:** The South Pole is an unowned continent. Under the Antarctic Treaty renewed in 1994, all territorial claims on Antarctica are frozen for 50 years, so it is a non-sovereign region at present. This makes it thoroughly different from the Arctic Pole. Besides, it is difficult and expensive to exploit Antarctic resources, so basically no countries are engaging in the exploitation. Therefore, the “Antarctic Model” is not suitable for the Arctic region.

# Ensuring Mutual Benefit, Meeting Practical Needs, and Expanding Multilateral Cooperation

Reporter: Teo Beilin



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## Li Mingjiang

Associate Professor, Coordinator of China Programme  
S. Rajaratnam School of International Studies (RSIS), Nanyang  
Technological University, Singapore

*From the perspective of great power competition, China needs to be more inclusive and open to encouraging and welcoming the participation of other great powers in the projects of the Belt and Road Initiative to avoid the perception that the Belt and Road Initiative is led by China, monopolized by China, and used by China as a strategic tool.*

**Reporter:** You mentioned the importance of local governments in the “Belt and Road” Initiative, what would you consider the specific role of local government?

**Li Mingjiang:** On the one hand, the formation of the Belt and Road Initiative stems mostly from the interaction between local governments and China’s neighboring countries over the past ten to twenty years, especially in border regions such as Xinjiang, Yunnan, Guangxi, Heilongjiang, and Inner Mongolia. This is most apparent in Yunnan and Guangxi province, which have been driving cross-border cooperation in transportation, infrastructure, personnel exchange, investment, non-traditional security with neighboring countries, and other areas. Thus, to a certain extent, we can say that

the Belt and Road Initiative has benefited from the long-term efforts of these border provinces.

On the other hand, the Belt and Road Initiative involves interconnection with neighboring countries and relies heavily on border provinces for its implementation and execution. From the Central Government's perspective, the Belt and Road Initiative is a framework. For it to be substantive, local governments need to propose and then execute specific projects. As such, another critical role local governments play is to implement projects under the Belt and Road Initiative. Indeed, after the proposal of the Belt and Road Initiative, twenty-over province-level local governments have drafted their own Belt and Road Initiative proposals, where many projects were suggested and resources correspondingly allocated. From this perspective, local governments are a vital force in the Belt and Road Initiative.

**Reporter:** At the conclusion of your speech, you mentioned that local governments could alleviate challenges and concerns such as sovereignty issues. Could you please elaborate on this?

**Li Mingjiang:** China considers the Belt and Road Initiative a mutually beneficial economic cooperation plan. However, many countries, especially those that border China, consider this China's grand strategy. They think that China has other interests, in addition to economics such as geopolitics, security, and politics. Hence, they are somewhat wary of China. Additionally, these countries worry if the Belt and Road Initiative will cause them to become dependent on China economically, financially, or in terms of debt, and if China will leverage on such dependencies to pressure them into giving way in disputes with China. As a result, if the Chinese Central Government drives the Belt and Road Initiative from the top, these countries will definitely take some kind of precaution.

However, if local governments had proposed these projects, such concerns may be

alleviated. This is because local governments generally discuss cooperation and economics, which dials down the Belt and Road Initiative's geopolitical overtones. While this cannot allay the concerns of these countries completely, it will abate them.

**Reporter:** You mentioned that the Belt and Road Initiative should be mutually beneficial, how should China ensure mutual benefits when implementing the Belt and Road Initiative?

**Li Mingjiang:** As long as it is a partnership, the other party's interests must be taken care of. China has indeed paid greater attention to this, ensuring that China does not monopolize the benefits brought about by the Belt and Road Initiative. However, from the perspective of many other countries, China has benefited more from such cooperation. Of course, every country hopes to gain more, and this raises the issue of fairness.

Hence, we must first balance the distribution of benefits. As a large nation, China is a bigger economy and has greater ability to take care of other countries. Therefore, China may make more considerations for other countries in project design, resource input, and interest distribution. For example, in some infrastructure projects of the Belt and Road Initiative, China's loan interest rate is still relatively high compared to the Japan-led Asian Development Bank or World Bank concessional loans. Besides, when it comes to China's investment and infrastructure projects, Chinese companies have always preferred to bring employees, technicians, and laborers from China to work on contracted projects. However, the receiving country hopes that China's investment will bring them longer-term benefits such as employment opportunities, technology transfer, human resource training and the overall development of an industry.

As a whole, China can make significant contributions to its neighboring countries. Most of China's neighbors are developing countries that are relatively economically and technologically backward. Apart from investments, China now has plenty of capital and

capacity that need to venture outwards. This can bring about various substantive and tangible benefits to China's neighbors. In terms of technology, China has much to share in some areas, indeed. This can be achieved through training sessions, technology transfer, joint ventures, and other means. Other areas in which China can help neighboring countries include education, poverty alleviation, electricity supply, water, engineering, manufacturing and traffic management. Under the Belt and Road Initiative framework, there is a lot China can do in these areas.

**Reporter:** How do we ensure that these projects are realistic and how do we maximize their benefits?

**Li Mingjiang:** This requires Chinese participants from all levels to increase their engagement with local government agencies, communities and social organizations to listen to local demands. Of course, many neighboring countries are still fraught with problems such as a lack of transparency within their social and political systems and the inchoate rule of law. To ensure that local communities gain concrete benefits from Chinese projects, China may also need to learn from various international norms. In the past, China has only dealt with the government of the other country and was relatively less concerned with communicating directly with the society, the common people, and civic organizations. Now, China may need to leverage on international experiences to delve deep into the local communities to be among the common people in order to understand them. This will mitigate the problems caused by the imperfect legal system of the other country.

For now, the Belt and Road Initiative by and large comprises infrastructure construction and industrial cooperation. To maximize the interests of the other country, including the businesses, society, and people, several issues must be discussed.

The first issue concerns research. Projects need to be based on sound research at the very beginning that ascertains and clarifies local needs. The second is scale. Investing



too much in advance and over-investment will cause a waste of resources, so it has to be just right, paying attention to the short-term, medium-term and long-term needs. The third is to put an end to corruption, as this reduces economic interests. The fourth is to balance the interests of the other country and the specific interests of the local government. The fifth involves endowing practical benefits for the local people, including employment, labor standards, and environmental protection. The sixth is to abide by market rules. Many projects are now government-led, and though government leadership is necessary, investment behavior still needs to be in accordance to the market economy and market rules. This is because artificial design is often askew and riddled with mistakes. Only the market can maximize benefits. Therefore, it is better to leave it to the market to decide.

**Reporter:** At the ‘Global China, Global Impacts’ forum last January, you mentioned that if China hopes to bring about more benefits through the Belt and Initiative, it must be more open to the active participation of other large nations to facilitate multilateral cooperation. Why do you think so? How should this be implemented?

**Li Mingjiang:** Firstly, cooperation amongst China and other large countries will improve the economic efficiency of the Belt and Road Initiative. Undoubtedly, China is unparalleled in infrastructure. Conversely, China cannot take on everything as it does not have an absolute advantage in every aspect. Developed large countries, in particular, other countries also have their advantages, such as in technology, project management, and development aid management, which are what China lacks. Hence, objectively speaking, China must cooperate with other large countries to achieve increased economic efficiency in a project as extensive as the Belt and Road Initiative.

Secondly, in real international relations, when a major power proposes an ambition plan, others will worry if it is a geopolitical tool to expand its influence. Therefore, other big countries may obstruct, oppose, and even undermine such plans, which in this case is

the Belt and Road Initiative. This increases China's cost in driving the Belt and Road Initiative. A simple example is the Jakarta-Bandung High-Speed Rail project in Indonesia. China and Japan are competing in this project for geopolitical and strategic reasons, which increases China's cost in participating in the Belt and Road Initiative.

From the perspective of great power competition, China needs to be more inclusive and open to encouraging and welcoming the participation of other great powers in the projects of the Belt and Road Initiative to avoid the perception that the Belt and Road Initiative is led by China, monopolized by China, and used by China as a strategic tool. In the past years, China has done little in this area. China is not very interested in encouraging other large countries in participating in the Belt and Road Initiative and prefers to lead the initiative on their own. Geopolitical rivalry amongst large nations is in fact quite obvious now. As a result of that, some things that can be done and needs to be done within the Belt and Road Initiative are left undone, and regional multilateral organizations cannot be utilized to support the Belt and Road Initiative. Thus, the Belt and Road Initiative is met with considerable resistance, which generally comes from other large nations. Therefore, to improve the implementation of the Belt and Road Initiative, there is indeed a need for greater coordination between China and other large nations as well as the increased participation of other large nations.

Thirdly, concerning capital, China cannot single-handedly fulfill the capital needs of the Belt and Road Initiative due to its enormity, even though China does have lots of capital. As such, the participation of other countries, especially the large economies, will be pivotal in resolving this funding issue.

Regarding implementation, China has actually put a lot of effort in recent years. China still hopes to win the support and participation of the United States and has actually made some inroads in Japan. There is now a slight change in attitude and a willingness to participate to a certain degree, though Japanese officials are less enthusiastic and tended to encourage Japanese companies to participate in the Belt and Road Initiative

instead. India is still generally clearly opposed, and the negative attitude of the EU is becoming more and more apparent. Russia supports it on the surface, but in fact, is guarding against China. For example, in Central Asia, West Asia, Eastern, and Central Europe, Russia is still generally more defensive. Therefore, gaining the support of major powers remains challenging for the Belt and Road Initiative.

On the one hand, China can continue to lobby and explain to these countries while on the other, China can bring the Belt and Road Initiative to a higher-level multilateral platform, such as G20. Perhaps China can elevate the Belt and Road Initiative to a specific political cooperation platform within the G20 framework, which may not necessarily be entirely driven by China. Where China has greater capabilities than other nations, China may lead. However, shifting the Belt and Road Initiative from one that has been initiated and dominated by China to something that is led and driven together with other large nations may also be a viable option. Under the G20 framework, the Belt and Road Initiative will be met with less resistance and have greater prospects for cooperation. However, this also means that China has to give up its leadership to some extent. As such, Chinese leaders need to make a judgment call based on the advantages and disadvantages. If other large nations or international organizations were to play a more significant role in the Belt and Road Initiative, there would inevitably be multilateralization on the global scale, or it will be challenging to garner the wholehearted support and dedicated participation of such nations.

## **When LIFE Comes Into Real Life: What Can We Learn from the success of Community Based Long Term Care for Older Adults in Philadelphia?**

Reporter: Wang Zixuan



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**Eileen M Sullivan Marx**

Dean of the New York University Rory Meyers College of Nursing  
Erline Perkins McGriff Professor of Nursing

*Living Independently for Elders (LIFE) is a nurse-led inclusive care program for the elderly people. Created by Professor Marx forty years ago, it has become one of the most successful models in the world to combat with the ageing problem. During this interview, Professor Marx was invited to share her valuable experience in providing inclusive care for older adults which is full of profound ideas that can be learned by us.*

**Reporter:** Almost all of the speakers yesterday have talked about some unique mindsets of older people. For example, they may carry huge doubts towards the effectiveness of high-tech gadgets, or especially in China may be extremely frugal towards themselves. Or maybe in India, some scholar argues that as some people get older and become frailer, they may already be prepared to die. So how can our technological innovations be targeted at such mindset and thus to successfully fulfill their purposes? Have you ever done any research about the consumption or treatment psychology of the elderly?

**Eileen M Sullivan Marx:** I don't think these mindsets do exist today, and they are actually our stereotypes towards elderly people. One of the concerns that some of us had in the papers represented yesterday was that there was too much judgment about what older people can and cannot do. As supposed we know that as we grow old, we can continue to learn, continue to change, as we are getting wiser, since the more you exercise your brain, the more you exercise your body, the more you can contribute to the improvement of your health. Therefor I don't agree and in fact I will not say that there is an end for learning, and the statement that old people don't want to learn technology is not true at all. And if we judge that too harshly, then we will do them a disservice.

People who were frugal when they were young will still be frugal when they are old. It is more about their personality than is about their age. One of the studies shows that you just become more of yourself as you get older. So some people who had a very good sense of humor and were very generous and these people continue to be that way in their own way.

That's what people do to just stereotype those old people, and that makes no sense to do that when developing a business product. If you are developing a business product, you go to all customers, and you need to find out, test and focus on the customers' group about how the selling works for you and what the product is for if you are really want to start a new product. And you learn from that so that you can sell it back to their concerns, so you can sell it back to them. So if the companies carry a great number of stereotypes towards older people, that doesn't sound to me that, they are doing that right aspect.

**Reporter:** I remember yesterday, some of the guests on the roundtable talked about the lack of information about the psychology of those old consumers. They argue that our government and private business owners at some times will not

get enough statistics and data for them to make the right decision so that they cannot guarantee their business to be always profitable. Do you regard this deficiency as a big problem and are there any measures to tackle this problem?

**Eileen M Sullivan Marx:** I think the existence of such lack explains that that is why we sometimes need to focus on some small regional groups besides just taking it from a mass group of people.

**Reporter:** Since we have just talked about the need for some data from small regional groups, we can make one step further towards the regional disparities appearing in the process of technological innovation. As we all know that the difference between regional developments is really huge. For instance, Shanghai is not the typical China when referring to the attainability of high-tech gadgets, and what is often the case is that those newly-designed technologies are always in the hands of rich urban people. So when you are developing your LIFE program in Philadelphia, have you ever considered the problem of regional disparities and make some improvements?

**Eileen M Sullivan Marx:** There are programs like this in the middle parts of America, so you do need to some certain number of people in a certain geographic region in order to run this program. It is built around the center. There are programs all through the United States, but in Philadelphia, one of the reasons why it has been successful is that because the way the homes were built in West Philadelphia. There are large homes, close to each other, and several generations live in the home together so that there are many people who live with their old relatives, as opposed to some places when old people go to retired and there are no young people. So in West Philadelphia, there are many generations living together and this is the preference of people. Also, there are economic incentives. Those big homes are actually owned by older people, so they have enough space in the home for many generations to live.

**Reporter:** Such a kind of design indicates the humane concern of LIFE. Could you further elaborate on how to put family members also in the center of the program? Could you introduce us some specific measures and examples?

**Eileen M Sullivan Marx:** To help to reinforce a good community, you not only provide the older people with elderly health programs, you also set up good schools for children to go to and then employment for the adults. So the working adults can go to work and the older adults can go to the center and the bus drive them home at the end of the day and the children come home on the school bus.....Such a smooth circulation really reinforces the whole community.

**Reporter:** Also, could you give us some specific examples about the innovations made by LIFE to make the elderly become more sociable besides the traditional ways like cards and chess playing? Like providing some job opportunities?

**Eileen M Sullivan Marx:** So under most circumstances what older people do is to get involved with their peers. In the center, maybe older adults want to work and help others, so one person can help another person to fill out forms and another old person may have skills in art and he or she may teach art lessons for others who want to learn art. Other person may be quite good at wood working, so we will have men sometimes even women who want to learn about wood carving or carpentry, and the “teachers” may get paid a little bit after teaching other elderly people some skills like wood working. So you often find out there are certain skills and experiences that you have that can be translated to other people. Moreover, in other parts of United States, another field older people have found useful is in retail. So if you want to buy certain thing you walk through the market, older people are very accustomed to dealing with large groups of people, and they are friendly, they can show the products for the consumers very well etc. Nowadays, many older people in the United States work in the chain supermarket

Home Dipo, for they have good relationships with people and they know how to use IPADs and find things all through the stores for people. So I think there is still many things people can do for the community and be useful when they are getting older.

**Reporter:** So how is the feedback among the old people of all those measures? I mean are they that willing to take on those lessons and occupation provided by LIFE? And are there certain groups of older people just prefer to stay by themselves?

**Eileen M Sullivan Marx:** I don't think any one of the elderly will prefer to be isolated from the community. There are occasionally people who prefer to be isolated but they are just the same whether they were old or young. The young people who prefer to be isolated always remain isolated when they are old. My father-in-law was a father who didn't want to be bothered. He was like that when he was thirty years old. He didn't want to go on vacations, and he just wanted to read his books and go to bed. He was the same at ninety as he was at fifty. When he got older, he just stayed as who he was. But most people do not want to be isolated. Human beings do not want to be isolated unless they have certain personalities. I once did a research and found out that many people select different types of socialization—some people are very satisfied with their socialization that is full of telephone calls and skypeings, and want to stay in this interactive group with their peers several times a day while other people may just say “I just only want to do this once a week.” So it is all about variation, but universally, human beings don't want to be alone in a room or by themselves, like the solitary confinement in jail and when we are in the solitary confinement, our brains don't work well.

But as for retrieving the right feedback from them, we also need to establish regular and frequent communications with older people to let their voices heard by the organizers of those elderly health programs. You have to ask people what they want and



you have to ask people to discover and develop the needs of individuals.

**Reporter:** However, in some least developed areas where the houses are not terraced and big enough for generations to live together and in other cases the young educated people work outside miles away from their homes and cause the “Empty Nest” phenomenon to happen. How can our programs be attained by these older people?

**Eileen M Sullivan Marx:** There are some places with only apartments and small groups, and what we have for these places is to establish a regional center to provide recreation and other social services. And we will also provide transportation for them to get to these services or to the social recreational facilities twice a week for example. They get out their homes, and they do exercises.

And in rural areas that is the same problem. In the United States, in some very isolated rural areas, how do you help people to jump out of that state of isolation? Under this circumstance, you can use technologies and provide health supervision and communications to let those old people to feel like they are a part of something. Some speaker today has talked about the technology about “networking” so as to have some technology network for people to know one another and that might offer great help for those people in the lagging behind areas if we provide them with all those technologies for free.

**Reporter:** LIFE as well as all the healthcare programs calls for high-quality nurses of various kinds. Almost all the guests today have mentioned the challenges to recruitment and retention. Moreover, as you have mentioned in one of your essays, named “Ageing is a human experience of courage and human development” by 2020, there will be a 29% shortfall of nursing workforce. How the situation is now in America and what can we do to maintain the workforce

from diminishing? Have any incentive been created?

**Eileen M Sullivan Marx:** The nursing shortage in the U.S. is overall improving as more young people become nurses. The shortage is quite variable by region. For example, most urban areas do not have nurse shortages but many rural areas do have a shortage.

**Reporter:** You use the word “very innovative” when talking about the funding of LIFE. Its innovation according to my understanding mainly lies in the coverage of this program. Could you explain for us how can this program reach such a kind of extraordinary coverage? How did LIFE make ends meet in the early stages? Do those sponsors naturally appear?

**Eileen M Sullivan Marx:** Our program is mainly government-sponsored, but now we are getting more and more private sponsors to be interested in our programs. In the very beginning stage of PACE program, to get the government sponsors, we need to provide demonstration of success for over twenty years. So twenty years of successful data showed the government that it was worthwhile and high-quality care. And it saved money. And nowadays, we are doing the same initiative to attract private sponsors.

Actually, the government chose to help to build our program without any success proof forty years ago. It was the beginning of a different type of program that was like a social program and then we took the health program and put them together and made it work and showed the government this program and how it would work. We have to put social program and health program together. When we look back, it is the people of the government that demonstrate the potential success of our program to the government. United States comes up from the people, and it is not down from the central. So it is the community, the people saying “Look, this is working for us.” that let the government support our program.

**Reporter:** Have you ever thought of enlarging the range of LIFE? And what is your blueprint for the development of such a program?

**Eileen M Sullivan Marx:** I no longer am supervising the LIFE program but it has grown and spread especially in the state of Pennsylvania where most of the programs are in the U.S.. Regional governors must agree to do such programs and pay for them plus grant opportunities to open them for private funding. That is the key component to grow them. Although the Affordable Care Act creates some federal incentives, only the local states have control over these programs for most of the financial funding.

# The Participation of Multilateral Development Banks in Economic Globalization

Reporter: Zhang Yujie



## Luciano Galvão Coutinho

Brazilian economist and since 2007, the President of the Brazilian Development Bank (BNDES). Under his direction, BNDES holds over 500 billion dollars in assets. In 2009, Dr. Coutinho has been featured in Epoca's 100 Most Influential Brazilians and in 2010 considered the Financier of the Year by Latin Trade.

We already have some systems to optimize all the infrastructure, but in plan, we can be much more efficient in the future, we should take into account that most infrastructure must carry digital capabilities to communicate with systems of processing. It could be processed into the cloud computing, but there has to be smart systems that automatically maximizes the most efficient function of the operation of the system, I think it's will deliver productive results which are very important for the society. I think infrastructure in the future will be much more efficient and smarter, and we have to consider that in the planning of project's preparation.

**Reporter:** The theme of Shanghai Forum this year is "Global Governance and Asia". Compared to the previous theme "Economic globalization and Asia's choice", the 2018 Shanghai Forum emphasizes more on Asia's responsibilities and global change. How do you understand this new theme?

**Luciano Coutinho:** I think this year's new theme emphasizes more on Asia's

responsibilities, which helps to promote the integration of globalization. It's positive (and full of) motivation. Because Asia has some development strategies that are very helpful and very valuable to western countries, particularly the way how many Asian governments develop in the completion of state guidance in markets, I think it's a very successful lesson. And Asia has also integrated through global trade to international division of labor in successful way. So I think the lesson of how to participate in globalization in a positive and fluent way is related to the development of countries, that is also a very useful lesson to Asian governments, particularly (the government of) China, and also to all the governments of countries. I think promoting a healthy balanced globalization is of great intense, we should discuss which conditions for free trade is positive and precious, because it may not fit the development process, just depending on the conditions how you relate, how you trade, how you finance. Since the financial system relate to the growth of global economy, so understanding the current conditions is a very important theme, I welcome this try to the new theme of Shanghai Forum.

**Reporter:** Some scholars believe that Asian countries should improve strength and leadership in domestic affairs before participating in global governance. How do you view this standpoint?

**Luciano Coutinho:** I agree that Asian countries should improve themselves before having more active roles in global governance, but I think they should not inhibit themselves from participating, because they already have frontal and interesting lessons, and Asian countries can offer their experience to the global governance. I think maybe few years from now, Asia will be more formative, but I don't think it's not true to repress itself and inhibit itself from participating right now.

**Reporter:** Nowadays all continents have established regional development banks modeled after the World Bank, but sometimes the regional development

banks will be influenced by the interests of dominant country and play a limited role in global economic governance. So how to ensure the independence and impartiality of development bank?

**Luciano Coutinho:** I think that multilateral development banks are different from regional banks, they have different roles but they are both necessary. Now we discuss the way to ensure the independence and impartiality, I think it is important for regional banks to open up and to have the participation for all the countries from all the parts of the world in their organization, people from other countries can hold a post as a leader, as a founder, such (positions that) they can contribute to a broad vision. In brief, regional banks should do not restrict the scope, what calls for special attention is that sometimes the substance of the policies will lead to a narrow scope, that's purely regional. In today's trend of economic globalization, regional areas will relate to global trade and the international political relationships, it cannot be ignored that the world is integrated, so regional banks must also have the global vision, although they have a consideration in regional area. Like the Asia Infrastructure Development Bank, which is an important development bank to promote the cooperation in Asian regions through infrastructure, but it should have a broader vision and look further, just put the view into global economy. And I think Asian Infrastructure Development Bank is a nice case, it's a professional organization, and I think it has a very healthy governance for this kind of the institution, so I think it is a good model for regional banks. I think we also have such regional banks in Latin America which are influenced by Latin American development banks, it's also have a balanced cooperation with regional banks and multilateral banks.

Yesterday (in the discussion at the Round – Table conference) we had an interesting example—how the African Development Banks promotes cooperation with the organizational banks of Asia in exchanging broader participation, and it's positive for both. I think cooperation among regional or multilateral banks should be support.

**Reporter:** Compared with traditional development banks such as the World Bank and ADB, what difference do you think new development banks have in functional positioning? Can we regard new development banks like BRICS Development Bank as a channel for emerging economies and developing countries to express their concerns?

**Luciano Coutinho:** Well, I think the BRICS Development Bank and other development banks are of highly positive initiatives, because they have broader focus on the developing economies, not just for BRICS economies, and that's a mission of the World Bank. Because we know that the World Bank is a very capable institution which has a large staff, so when the World Bank becomes the world bank's governance, not open for the participation to the new roles in the international system, it will remain dominated by the traditional founders. We also should learn from the development models that has been successful in Asia, and that's not necessarily prevalent in their policy recommendations, at least in the experience of Latin America, we need to have a broad vision and a broad understanding of policies.

**Reporter:** As the seminar topic discussed at 2018 EBRD Meeting on May 9. We can see with the promotion of the Belt and Road Initiative, multilateral development banks like EBRD carries out in-depth cooperation with China. What do you think of the impact of the Belt and Road Initiative on Global trade and economic growth?

**Luciano Coutinho:** I think that the Belt and Road Initiative is a good example of how the regional initiative need to have a global understanding, of course, the Belt and Road Initiative promotes the improvement of the infrastructure, which connects center Asia with Europe, and that's very important for Europe. So I think it is a very positive move for EBRD to try to cooperate with the Asian development countries, that is also the

reason why Europe take the participation in the AIDB—Asian Infrastructure Development Bank. It's an interesting example, and we should promote this kind of case.

As for the Belt and Road Initiative, I think it is a positive and interesting initiative, of course, the magnitude of the challenge is so big. We'll take time, but we need a long-term vision. Because first, the challenge to integrate Asia within itself and to integrate Asia to Europe, to Africa is very big in the future, but I think if you have a long-term ambitious view, it will get effective achievements. I know it's very difficult, but you must start, even if you start from collecting small projects, and the projects must have some brother planning, then they will fit in the future to make qualitative steps.

**Reporter:** Currently Brazil is increasing investments in sustainable infrastructure and logistics, you once has stated your expectation is that capitals market reaffirms its importance in financing investment, so with the progress of the Green Economic Policy, what are the advantages of capitals market in current situation?

**Luciano Coutinho:** Well, I think capital market has a very important and complimentary role to the development banks. But large project, particularly the green field projects, if they need to have a participation of capital market, they must prepare to face high risks in most cases, so I don't think the capital market will invest and support those projects in the beginning, I think in the beginning of the projects must be guided by the governments, and governments will take into account on the support of the development banks, I think development banks should be indispensable of infrastructure investment in part.

Large greenfield with higher perceived risks require government's support, now when the projects are mature, the constitution of projects get well advanced, and the project is complicated, then you can attract the capital market, because the risks will diminish,



and then the market may substitute for development banks laws. In the meantime that capita market may take higher participation, even the dominate participation, and they will free their resources—to let the markets come in, and let the resources go back to the development banks, and then they initiate these resources and they can investigate in more projects. So as for the commentary, I think at this stage it's positive, feedback between the development banks and the partners in the capital markets.

**Reporter:** We know that the BNDES plays a significant role in Brazil's sustainable infrastructure investment projects, and we can see hydroelectric power is a major component of the BNDES's green project. So how to develop the BNDES's potential to promote more renewable energy projects?

**Luciano Coutinho:** BNDES did the same and we help to develop the industry of equipment for wind power, which is very successful, so I think it is a positive experience, and we have this inter-bank cooperation with the BRISC countries and the BRISC association. It is a positive and learning process, so we have exchange the experience some of us, and the experience we learned from the BRISC countries during cooperation affairs will be helpful to promote more renewable energy projects. So in summary BNDES is very important for the development of Brazil.

**Reporter:** At present, the growth of Brazil's economy is very optimistic. But we know 2018 is Brazil's election year, with the change in politics and meanwhile, Brazil unexpectedly keeps benchmark interest rate unchanged this year, there are some suspect about the recovery in credit market and the labor market. How do you view such doubts?

**Luciano Coutinho:** Well, what we hope, we have general election this year, we hope that Brazil will have a new government, and this new government will be capable of

maintaining much lower interest rates and strengthening the role of BNDES in Brazil's development, and we also hope that new government put together some long-term plans for infrastructure, such as to help the recovery of sustainable growth of Brazilian economy. That's what Brazilian society wishes to see. Brazil has a recession in the last two years, the raise of recovery now is very slow, and the Brazil society eagers to see higher growth of economy, particularly in employment situation, we hope so. We hope that Brazil will move forward, and to become an important factor for growth in Latin America again.

**Reporter:** Your presentation at the Round – Table yesterday (The Role of Multilateral Development Banks in Asia and Emerging Countries Post-2008 Crisis, at May 26) was very interesting. I have noticed that you mentioned when planning and designing of new infrastructure project, we cannot overlook the application of advanced information technologies, so I want to ask what other stages that advanced information technologies can be used in promoting the infrastructure project?

**Luciano Coutinho:** Oh yes, I think information technology has tremendous potential for making infrastructure more efficient. For instance, when intellectual products applied in the distribution of electricity, they can be more efficient —— saving energy, and just delivering necessary energy depending on the use of energy, which requires digitization of the network gets improved. A good example is public lighting, if you have light lamps and processors that can communicate with the Internet, you can control by mastering computer to optimize the lighting. And if you have sensors, the lighting will bright more areas when there's people around or the cars moving around, and when there's nobody around, the lights can diminish, so this can save energy when we don't need illuminating system works. And the same technology can also be applied to water distribution, to the sanitation systems, and to the construction of hydroelectric power. So the tremendous potential are waiting for us to develop, and the raise of information

technology will lead to efficiency consequence. The same systems also can be applied to urban traffic, we can use intelligent sensor for all cars to communicate with the Internet.

We already have some systems to optimize all the infrastructure, but in plan, we can be much more efficient in the future, we should take into account that most infrastructure must carry digital capabilities to communicate with systems of processing. It could be processed into the cloud computing, but there has to be smart systems that automatically maximizes the most efficient function of the operation of the system, I think it's will deliver productive results which are very important for the society at all, because they solve resources. I think infrastructure in the future will be much more efficient and smarter, and we have to consider that in the planning of project's preparation.

# **Social Enterprises Sustainable Development in New Economy Era: Values, Challenges and Responses in the Context of China**

Reporter: Liao Su'an



**Ruth Shapiro**

Chief Executive and Founder of Centre for Asian Philanthropy and Society (CAPS)

*In the past several decades, social entrepreneurship has developed rapidly around the world, China included. In the New Economy Era, social enterprises face a lot of opportunities and challenges at the same time. China, as one of the countries that calls for mass entrepreneurship and innovation, provides inspiring experience for the sustainable development of social enterprises in New Economy Era.*

**Reporter:** The well-known social entrepreneur of Hongkong, Tse Ka Kui pointed out that an important feature of social entrepreneurship is to absorb and mobilize the beneficiaries: they are not just passively accepting the help, but are also changing and interacting with the social entrepreneurship. This idea seems quite different from the traditional philanthropy. How do you think of it? And what are the main differences between social entrepreneurship and traditional philanthropy?

**Ruth Shapiro:** Think about a continuum. On one side are traditional nonprofit organizations and philanthropy, they are grants. And on the other side are full-profit companies. Before thirty years ago, there was the left side and the right side, but nothing

in the middle. But then, a fellow named Bill Drayton created the term “Social Entrepreneurship”. He believes we should start using business thinking to apply to social problems. What has happened in the past thirty years is that there's been all kinds of innovation and experimentation in the middle.

So social entrepreneurship is the idea that you take business rigor and tools and apply them to a social problem. That is different than a social enterprise. You use those two terms interchangeably but they are different. A social enterprise is a company that works like a company but addresses a social problem, instead of making a profit, the money goes back into the company so that they don't need grants. So a social entrepreneur might be running a social enterprise, but they might be running a nonprofit organization in a more strategic business way.

In today's world, there's all kinds of different models and strategies, and the social enterprises is one, but none of them are “the one”, none of them are “the answer”. Every different type has different strategies, it is offering a different kind of value proposition. And it depends on the problems and the solutions you're trying to find to solve that problem.

**Reporter:** The Premier of China Li Keqiang first called for “Mass entrepreneurship and innovation” back on 2014, what do you think is social innovation, and why it is so important to China nowadays ?

**Ruth Shapiro:** A lot of times, the innovation is just the words rather than the actual. It's another way of saying that you're not accepting the way things are, and you're trying to come up with a new way of solving a problem. So when you think about the profit/nonprofit continuum, everything that has happened is a social innovation. It's people using different tools and strategies to address some kind of problems.

You hope it's better, but you don't know if it is efficient, you have to try. It may be a failure, but then you learn, this is more important.

**Reporter:** As we know, the most important standard of measuring the value of commercial corporation is profit. However, the main goal of social entrepreneurship is to create social value, which seems more subjective and flexible. How do we evaluate social entrepreneurship? What aspects or elements should we consider?

**Ruth Shapiro:** There are all kinds of different ways that people talk about return on investment within a social sense. As you point out in your question, when it's a company, it's very easy, you make profit or you don't. But things are different in social entrepreneurship. There's a lot of discussions about measurement and evaluation, and some of them are really good. Let's take education as an example. If kids have a low literacy rate, your goal may be to get them to read more books so that their literacy rate goes up. You can measure that, by testing them and you say, because we built this library, reading comprehension has moved to a higher level.

But where people struggle is that a lot of times the benefits are non-quantifiable. The reading comprehension and how many days they are in school are quantified, but things that are not as quantifiable are things like their attitude and their self-esteem. Think about this, in your lifetime, you've probably had one or two teachers that really motivated you. They were so good, but you can not quantify that. You just know that it was very impactful, but you can't put a number on it. What is a great teacher? A great teacher is somebody who moves the test scores up, but almost more importantly than that, is someone who inspires you and motivates you, which you can't evaluate. So I would say, there's no answer completely. You have to accept that there are some things you can measure and some things you can't. But the things that you can't are also very important.

**Reporter:** Do you think that how many people it has impact on is also a criteria for social entrepreneurship?

**Ruth Shapiro:** It depends on what you're trying to do. Because for some things, scale is important, but for some other things, it is not. If you were a philanthropist and you are donating money to scientists who are looking for a cure for cancer, you will not give it to ten thousand scientists. You really want to be targeted, give it to a few so that they can improve their research, but then that cure goes to thousands millions of people. So it really depends on what your goal is, the goal of the social innovation is different, depending on the project.

Quantity and quality are not the same. I think now a lot of people get confused of scaling. Ten thousand chopsticks going to one million chopsticks, that is scale. But in the social space, what's more important than scaling is system change. If you give ten thousands school lunches, you will have scale, but you have not solved the problem as to why those kids need school lunches. So I think that is one of the down sides of thinking about it in business terms. Because in business terms, it's just about I want to sell more, but in social change, you want to change the system so that kids are not hungry to begin with.

**Reporter:** In your book *The Real Problem Solvers: Social Entrepreneurs in America*, you have talked about many “hero entrepreneurs”, which is really inspiring. But at the same time, we know that it is also very important to establish dynamic alliance in order to achieve the persistent social change. How do you think of the importance of the alliance among different social entrepreneurship and what is the situation of the cooperation among social entrepreneurship these years ?

**Ruth Shapiro:** I actually say in the book that it's not that helpful just to point to the super star hero entrepreneur, because nobody can do it by themselves. And it's wrong to think of this one person against the world. I think it also comes from business. So you have Bill Gates, Mark Zuckerberg, but to do system change, you need partners, government and the community, you all have to work together, otherwise you are not changing the system.

So I think it's good to recognize leaders, and it's good to recognize people who have that drive and that passion, but it's not good to say that they should be operating all by themselves, it can not be. You do need that person with the passion and the drive. But that person needs to also be a part of a team.

**Reporter:** What do you think of the relationship between social entrepreneurship and the government? What policies or actions has government made to promote social entrepreneurship and innovation ?

**Ruth Shapiro:** I think that Asia is different than the United states and Europe in this regard. There is much more of a tendency and a desire in Asia to work cooperatively with government, and the government wants the charities, nonprofits and the social entrepreneurs to collaborate with it.

And I don't think it's right to say someone is doing it better. I think the most effective model is the one that works where it is, the American model may not be the most appropriate for China. The people I know in China who are very successful work cooperatively with government.

Let me give you two examples. There's a nonprofit organization called Lifeline Express. They go around China by train and they help eye doctors and hospitals be better at performing eye surgeries: the trains stop at a hospital and then they work with the



ophthalmologists department. They partner with the Ministry of Health, they would not be so successful if it weren't for that partnership with the Ministry of Health. The Ministry of Health want these doctors and these trains to go around. But Lifeline Express is a nonprofit organization and it's a partnership. One side cannot really do it without the other.

The government is not just giving them permission but also faith. The Lifeline Express raises its own money, so it's more about the government creating the opportunity and the legitimation. It's saying that "this organization is all right, we encourage you to work with them".

**Reporter:** What about in America?

**Ruth Shapiro:** In America, usually you don't have to care about what the government is doing. Sometimes you do, if you're trying to work within a school, you might want that particular school to agree, but you don't need to involve Ministries or Government agencies in the same way that people do in Asia. And it's not because they have to. Often times, what's interesting about Asia is, it's the natural way, it's more about harmony and "guanxi" (关系). But that's good, because if the government is working with you, then you bring about system change.

Let me give you another example. In Beijing, there is a school called Bainian. It provides vocational services. The founder knew the children of migrant workers were not able to go to school because they didn't have Hukou. China has a problem either leaving them behind, or if they bring them to the city, it's hard to put them into school.

So the founder created a school for these children of migrant workers to learn vocational training, such as plumbers, electricians, computer and repairment. Her first big grant came from the China Youth Foundations, who essentially recognized that there was a

need for the children of migrant workers to go to school. The Chinese government has also realized we need to encourage vocational training, because now in China, the problem is that a lot of people just think they should go to universities, but most universities are not as good as Fudan, so they come out without skills and have difficulties finding jobs. But Bainian has one hundred percent employment because companies need those people. And now there are twelve of these schools around China. Besides, the Chinese government has helped the state-owned enterprises to go to Africa and create those schools. Now the founder is an adviser to the government about their own vocational training policy. So it's give and take, back and forth.

**Reporter:** In these stories, these enterprises have a good relationship with government. But also there are some companies think sometimes government has too many restrictions on them. How do you think?

**Ruth Shapiro:** Some governments and agencies in China get confused between support and control. For example, the government might ask a nonprofit, what do you need? And the nonprofit might say, we need money. The government says, OK, here's money, but you have to do this study. Though the study is not exactly what that group was doing, they have no choice because the government is asking them. As a result, they are not doing the work that they want to do, but the government may think “we are helping them”. So I think that the Chinese government, especially with the New Charity Law, it's really trying to think how to best empower them. But that new Charity Law is very new, so it takes time to really learn about what is the best balance between support and control.

**Reporter:** In new economy era, social entrepreneurs are gradually solving social innovation and financing problems through new channels and new ways. Specially, the Internet technology has developed rapidly nowadays. In what ways do you think the social entrepreneurship can work with the new internet

technology? Could you give us some examples?

**Ruth Shapiro:** Of course there are many good examples of using the internet and new technologies in ways that are social innovations. I want to explain three ways the internet can be helpful.

One is crowd funding. Small money from many people equals big money. China is a good case of crowd funding. The famous one here is School Lunch Program. You only have to send five or ten RMB online, then all of a sudden we had millions and millions. This is one of the first examples and it now happens often.

The second way that the internet can be very helpful is exemplified by the Guo Meimei case. Internet allows the people to be watch dogs. They can see if people are corrupt, because some nonprofits are just trying to get the money, just like not all businesses are good, right? This is a big country, there are all kinds of people. So the internet makes it more difficult for people and government officials to go bad.

The third kind is actually a part of the business strategy. I'll give you an example. There is a nonprofit in Indonesia. They realize that a lot of people want to learn, but they don't necessarily want to go to school and take courses. So they created what they call an Academy Berbagi. Essentially people say, I want to learn about marketing, I want to learn about how to train a dog..... And then they use the internet to find somebody who says, OK, I will teach one class, not I will become a teacher, but if you arrange a place, I'll go and explain what I do. They are volunteers who don't get paid and the students don't pay, they use the internet to find each other. And now there are thousands of different classes that take place. Most of them are just one time, but it helps, and it's interesting. It's a creative social innovation using the internet and using people skills in a more informal sharing way.

# Reasonably Allocating State Credit and Rationally Treating SMEs' Undertaking of Social Responsibility

Reporter: Yang Yi



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## Wang Haisu

Professor and Supervisor of Doctoral Students, Zhongnan University of Economics and Law; Member of the Asset Appraisal Standards Technical Committee, China Appraisal Society; Member of the Decision-making Consultation Committee, Wuhan Municipal People's Government.

The growing and vigorous group of SMEs is an important cornerstone for social stability and development, and we must clearly cognize the law of mutual transformation between individual value and corporate value in growing of such enterprises, namely: startups require shareholders to own professional intangible assets, company growth requires corporatization of shareholders' intangible assets, and corporate value requires building of the mechanism continuously to lock key employees' intangible assets. Only when economic law becomes into social regulation and social regulation evolves to be rules of enterprises can virtuous interaction among individual, enterprise, market and government be realized.

**Reporter:** In the era of knowledge economy, technology is the core for development of SMEs, and Xi's report to the 19th CPC National Congress further highlighted the efforts to invent and create "disruptive technology". So, how should we appraise such kind of intangible assets? Which challenge will the situation cause to existing appraisal technology?

**Wang Haisu:** In China today, hi-tech SMEs are rising quickly, particularly a big batch of SMEs with core technologies has emerged in fields of bio-technology and communications. Hi-tech is core resources on which such enterprises depend to survive and develop. Overall, there are two kinds of institutions for appraisal of the enterprises' core assets: one is the type of venture capital institutions, which follow pioneer enterprises in relevant industries, focus on the latest research achievements of the enterprises, and would like to invest in phasic achievements of the enterprises, but their technical appraisal is highly of venture capital. The other type is of professional appraisal institutions. Currently, there are two types of entrustment in the appraisal by such kind of institutions: one is that both parties of transaction entrust appraisal of their assets respectively. In business negotiation, the seller is concerned about the space for assets value release, while the buyer about risk factors influencing assets value. For this reason, the market demands for appraisal as entrusted by relevant parties exist respectively. Such appraisal business is usually considered as consulting business. The other is the appraisal involving state-owned assets and securities. According to relevant provisions, if any assets transaction involves state-owned assets and securities, an eligible independent third-party professional institution in line with the requirements for appraisal of state-owned assets and securities is usually needed to issue relevant appraisal report. So such kind of appraisal business is also called business of authentication.

I think there is no essential difference between the two types of businesses, as their basic functions are to overcome information asymmetry in relevant economic behavior and promote formation of fair transaction. It is needed to point out that, in the case of intangible assets pledge and of IPO or M&A of the companies with intangible assets as the core, appraisal of technological intangible assets should be generally based on four preconditions: 1. Such kind of technology has been mature relatively, usually constituted a technical combination consisting of patent, know-how and technical standard, and been supported by a relatively stable and sustainable R&D team; 2. Such

kind of technology has been integrated into a product, and the product supported by the technology can generate obvious consumer surplus due to its cost, quality and utility peculiarity; 3. The product supported by such kind of technology has occupied market and been encouraged by potential growth space, and needs to be guaranteed by sales contracts usually; 4. Its risk is predictable.

To sum up, whether a technology is “disruptive” is related to technology development level, contract value and R&D team stability. By judging different levels of technology, the appraisal by a third party is completely able to offer the value of a set of intangible assets, and the subject matter’s value will surely be related to future cash flow of the product to which the technology is applicable. Therefore, such kind of appraisal report features certain decision relevance.

**Reporter:** Besides technology, funds serve as the support for SMEs’ development. Facing financing difficulty, your proposal is the need of reasonable allocation of state credit. So what is the basis for your theory?

**Wang Haisu:** SMEs, on the one hand, are main power for China’s economic growth and create numerous jobs and social fortune; on the other hand, are generally considered as with small size, poor capacity and insufficient credit, for which the paradox of deficiency of macro growth engine and micro credit occurs in the appraisal of financing ability of such kind of enterprises. In fact, a considerable number of such enterprises do not lack credit, and their supernormal development is related to the deposit of public resources stock that was formed in the planned economy and can be commercialized and capitalized. At present, the problem of SMEs’ financing difficulty is in fact related to credit misappropriation, which means such a situation: the phenomenon that dominant firms occupy funds of vulnerable firms through unfair contracts to make the latter fall into financing difficulty can be continued normally. Over the past 40 years since the reform and opening up, SMEs have played a very important role. They are

characterized by large number and quick growth and keep optimizing in terms of structure and quality, and have made payments for taxes higher than large-sized enterprises represented by state-owned enterprises and foreign-funded enterprises since 2005. So China's economic growth is attributable to SMEs to some extent.

But China's endorsement for credit of large-sized enterprises is obviously higher than the credit support for SMEs. Most large-sized enterprises' capability of borrowing and debt paying is not fully based on their creativity, but more on initial investment by the government, promotion by government policy and unfair release of the above-mentioned investment in market, which thus lead to the situation that in the market economy, other market players compete with large-sized enterprises at different levels. On the other hand, the unequal credit endorsement is in fact such a practice using SMEs' contributions to tax to subsidize more large-sized enterprises, which causes Matthew Effect between large-sized enterprises and SMEs. Therefore, we now need to rebuild a fair mechanism between state credit contribution and state credit allocation.

**Reporter:** Do current investment institutions in market such as VC and PE as well as others make up for existing insufficiency in state credit allocation to certain extent?

**Wang Haisu:** Essentially, VE and PC institutions do not allocate credit, but play a role of "scout" in scientific and technological innovation, to discover, identify and evaluate opportunities and pay for the opportunities. They represent a market mechanism about the consideration of opportunities, rather than merely increase credit of an enterprise. Undeniably, however, these institutions' ability to take opportunities and make investment can enhance enterprises' capability of borrowing and debt paying. To identify extreme risks that such institutions have to face when making investment, we should clearly realize that they create no credit but identification and consideration opportunities.

**Reporter:** In the course of enterprise growth, the size of small enterprises is subject to change surely. In growing, an enterprise may disappear or become larger. So how will the social responsibilities on their shoulders influence their growth?

**Wang Haisu:** SMEs feature the general similarity of occupying less resources but making

higher contributions in their development around the world. On the one hand, such enterprises have to bear costs of training and cultivation of skilled laborers; on the other hand, they have to pay high financing cost and undertake the credit subsidy to large enterprises in manner of credit sale. They shoulder a lot of invisible social responsibilities which should not be undertaken by them and should be free from them, causing serious social injustice.

Over-emphasizing SMEs' social responsibilities may cause two kinds of results: 1. Making such enterprises unable to bear heavy burden, which explains why tens of thousands of SMEs are often on the way to the edge of bankruptcy in 2-3 years after establishment; 2. With efforts made for invisible social responsibility, some enterprises become stronger in dealing with problems, and may gradually develop brand effect that will be visible and touchable in the future to grow bigger and stronger. They positively or passively undertake many invisible social responsibilities due to various reasons, but external positive power may accompany the process of undertaking the responsibilities, which can in turn promote them to expand. However, such situation does absolutely not mean that society should increase invisible social responsibilities undue to SMEs just for existence of the possibility of optimization. Meanwhile, we should not ignore the unfair treatment that Chinese SMEs suffer in their development at present on the ground of successful transformation of some small enterprise.



**Reporter:** Talent is the first resource for enterprises. You proposed the view of “changing MBA into a lifestyle” and the growth mode that SMEs’ employees should “learn by doing”. How do you think the importance of cultivating such “business rationality” thinking?

**Wang Haisu:** The design and implementation of MBA and EMBA programs in China play a very important role in promoting the development of China’s economy. China started MBA pilot in 1991 and EMBA pilot in 2002. The two years served as the imperative inflection points of rising qualitative change in China’s GDP evolution curve for over the past 40 years. I think the offer of the programs is the result that the supply side of China’s first professional Master education effectively responded to the demand side of market economy at the right moment. It is the big batch of professional talents trained by the two programs that promoted China’s enterprise ownership reform in 1990s, and gave impetus to China’s deepening internationalization after its entry into WTO in 2001. These trainees did their jobs and learned, but they felt the necessity to go back to universities for improving their re-development abilities through studying and sharing when they developed to certain stage. So they develop themselves from “learning by doing to doing by learning”.

Understanding enterprise evolution law on the basis of business rationality is of paramount importance for them. Before starting up a business, the founders should think rationally and judge whether they and their partners are equipped with the technology, relationship and management ability as well as other intangible assets necessary for startup; in growing period, the founding shareholders must face the rational choice for corporatization of their intangible assets. At this time, it is needed to transform the founders’ personal relations, technologies and abilities into their companies’ products, technologies and markets; in mature period, company owners may face opportunities for capitalization of intangible assets of the their companies.

Practices in the Second-Board Market indicate that leading enterprises in segmented industries can capitalize shareholders' assets determined by intangible assets through IPO or M&A. Such kind of opportunities, however, also means cost objectively and should be treated rationally; in transitional period, founders of most SMEs may face the issue of privatization of intangible assets of their companies. For the sake of time, a company's some capacities and relations may be owned and controlled by its key employees invisibly, and their leave often means loss of core capacities of the company. So long-term stability of enterprises also depends on the rational arrangement between founding shareholders and key employees for sharing corporate value.

It will be both the respect for law and the application of regulations, and more importantly, the optimization of company rules to rightly recognize different problems in the four stages in enterprise evolution and scientifically design investment agreement, value adjustment mechanism, prospectus and equity incentive contract as well as other contracts. All these factors will determine quality and length of life of enterprises.

**Reporter:** So how can the business rationalities influence enterprises in specific application process?

**Wang Haisu:** The most important influence is that they are favorable for forming and optimizing internal value of enterprises.

Internal value presents the historical inertia of enterprises under constraints of the law of factor market and commodity market, and the professional judgment on cash flow discounting under joint action of current structure and evolution situation. It is a set of behavior orientation and situation of enterprises under joint influences of factor market and commodity market, and has the efficiency of inspecting book value and checking and balancing market value. Internal value is a dynamic integration of the competitive advantages formed through self-organization and self-adaption activities by enterprises

in responding to changes of external factors. It is a systemic optimization and involves contents of three aspects of structure, system and culture. Of the three aspects, the stability and advancement of enterprise culture is the most important. Taking the SMEs originating from kinship as an example, family enterprises with development potential and possible to be evergreen have usually structured the mechanism of conversion from kinship families to non-kinship families for key employees. The reasons for which lie in: 1. Any kinship may be weakened at any time, and inter-generation cultural conflict may make family enterprises have no successors; 2. Enterprise growth relies on its ability to attract and retain non-kinship excellent talents; 3. The law of evolution of successful family enterprises proves that enterprise employees with cultural identity can play a role better than families though they are not families in a family enterprise.

**Reporter:** Today, China advocates the enterprise development goal that enterprises should be leading in the world. So which international responsibilities should SMEs undertake?

**Wang Haisu:** At present, there are many theories and schools in studies on enterprises' social responsibilities. Before exploring the responsibilities, however, we must understand that enterprises belong to profit organization rather than non-profit social organization. The payments for taxes made by them serve as the foundation for the government to undertake the responsibilities including those for helping the weak. Based on the above-mentioned analysis, I think before fully recognizing and compensating SMEs for undertaking heavy invisible social responsibilities, we should not discuss about social responsibilities even international responsibilities of the enterprises beyond their real capacities, which does absolutely not mean that any SME can go against regulatory commitment of the Chinese government in relevant foreign business. Such enterprises need to provide global consumers with trustworthy Chinese products and services through technology innovation, quality improvement and cost control, which are maybe the international responsibilities that Chinese SMEs need to

highlight at present. Enterprises perform social responsibilities for better survival and development. As far as Chinese enterprises are concerned, the performance of social responsibilities even international responsibilities will undoubtedly be a rational progressive process.

**Reporter:** How should we understand the “rational progressive” process? Whether can we consider social responsibilities as a byproduct in enterprises’ development?

**Wang Haisu:** Whether Chinese SMEs still have capacities to undertake more social responsibilities is the key to answer the question. In my speech to the forum, I have presented a series of data to show how such enterprises have been overloaded due to undertaking invisible social responsibilities, so there is no need to go into details here. What needs to be emphasized is, if government, society and related enterprise do not reach a consensus on SMEs’ invisible social responsibilities and take collective rational actions to share and alleviate the responsibilities, the para-public products provided by SMEs will be hard to maintain. So I think discussions about the issue need to be linked with basic national conditions. In a certain sense, on the premise of enterprises’ legal operation and performance of tax payment obligations, other social responsibilities undertaken by enterprises are all related to their brand building and the inputs for gaining more long-term and stable social returns. Therefore, enterprises must act according to their capabilities and carry out optimization progressively when performing social responsibilities.

# Beyond Oil and Gas: Other Areas and Models of Joint Development in the South China Sea

Reporter: Wang Zheng

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## Hong Nong

Director of Research Centre for Oceans Law and Policy at National Institute for South China Sea Studies, Executive Director and Senior Fellow of Institute for China-American Studies

Through the joint development of the South China Sea, to promote regional development and build a good relationship between China and ASEAN countries. Facing the differences among countries in the East Asian legal culture community, turn challenges into opportunities. Educate China's own international judicial talents who understand the international situation, have professional analytical skills, and are able to voice for China in international dispute resolution.

**Reporter:** In your previous study on oceans law issues between China and ASEAN countries, you have mentioned that “Countries have common interests in ensuring the sustainable and effective use of marine resources and sea lanes”. What do you think are the opportunities and challenges facing China in the future of energy security cooperation between China and ASEAN countries? For China, how to effectively cooperate with ASEAN countries?

**Hong Nong:** My analysis of this problem is mainly from the perspective of oil and gas development in the South China Sea. The South China Sea is rich in oil and gas resources, but because of some disputes involving sovereignty and jurisdiction issues,

the sole development of oil and gas by some countries in some disputed areas is bound to cause other countries' discontentment and objection. Therefore, joint development in the controversial part of the South China Sea is a good way and a temporary solution from the perspective of promoting cooperation among countries. But the problem we are facing now is that because China has always advocated for joint development, the reaction of other neighboring countries has always been that some countries have reacted relatively coldly, and some countries agree with this formulation, but they have many their own concerns.

For example, some countries will feel that the premise of joint development of the South China Sea is that the sovereignty of the sea belongs to China, so they are very worried that if they agree with China's idea of joint development, it is equivalent to recognize the sovereignty of these islands and reefs in the South China Sea belongs to China. This is a big concern for these countries. Another concern is that some countries are worried about joint development in "controversial places", which they think are uncontroversial. But if they agree on the joint development, they may become disguised to recognize some of China's maritime claims. These issues are the main concerns of other countries. Therefore, from the perspective of other countries, the challenge we face now is the lack of political will.

The most difficult thing for China and ASEAN countries at present is to reach agreement on the regions and geographic locations that are jointly developed. It is very difficult, but if the joint development is done well, it will be a good start point for China on many policy proposals on the South China Sea issue, including relations with other ASEAN countries. As I mentioned in the meeting, it may be necessary to choose and solve a disputed issue that involves only two countries, such as a dispute between China and Philippines, between China and Vietnam, or between China and Malaysia, and then make it a good precedent for other disputes. I hope that this successful case can promote the resolution of more similar problems, and thus have a better impact on the joint development of the entire South China Sea. This is a relatively good solution for China

in terms of current opportunities.

**Reporter:** From the process of the South China Sea arbitration case and its following development, what do you think are the current problems in international dispute resolution mechanisms such as litigation and arbitration?

**Hong Nong:** I believe that the current problem of international dispute resolution in the law of the sea is that there are actually four bodies in the law of the sea, one is the International Tribunal for the Law of the Sea, another is the International Court of Justice, and then the ad hoc arbitral tribunal and the special arbitral tribunal. In fact, when the four bodies were designed at the time, the International Tribunal for the Law of the Sea should have a very important position on the disputes over the oceans. But for now, because the threshold of arbitration is relatively low, for example, the threshold of jurisdiction and acceptance is relatively low, many countries may prefer to choose arbitration instead of submitting such disputes to the International Tribunal for the Law of the Sea or the International Court of Justice.

In the South China Sea arbitration case, in fact, many Chinese scholars have doubts on whether to accept the case award in the first place. There are many controversial issues in the case. This case has lasted for three years. For China, the result is not very good, and our national image has also been affected to some extent. But this is an opportunity to learn lessons for China. The good aspect is that in recent years, many Chinese scholars in the field of the law of the sea, or many younger generations of scholars, have chosen the law of the sea as their research field.

Although we already have a lot of experience in commercial arbitration with our own talented team. However, in this kind of international litigation, especially in terms of national sovereignty and demarcation issues, we lack talented professionals. Through this arbitration case itself, China has obtained a great inspiration, and it will promote

China to train our own talents in the field of litigation and arbitration in a more organized and systematic way. I think this is the good experience that China can get in this case, which will turn challenges into opportunities.

**Reporter:** You have published a paper on East Asian legal culture community, and you believe that the South China Sea arbitration case has triggered a deeper reflection on the legal culture of East Asia, especially the culture and law of the sea. For the law of the sea, what do you think are the differences in legal culture among countries in East Asia? What are the specific effects of these differences on the practice of the law of the sea?

**Hong Nong:** When it comes to the basis of the East Asian common legal culture, since many people think that there is a cultural system throughout Asia in which they are not willing to resort disputes between the two countries to international arbitration or international litigation. But now there are some changes, and some Southeast Asian countries may move a little forward in this regard. For example, Singapore and Malaysia, Malaysia and Indonesia have precedents for solving sovereignty issues through the International Court of Justice. China may still have huge differences with these countries in this respect, including the differences between ASEAN countries themselves. For example, Vietnam's position is closer to China's position in this respect, which is relatively conservative. Therefore, there is a legal and cultural difference between China and these countries.

**Reporter:** What do you think is the challenge facing China from the legal perspective in resolving disputes over territorial and maritime rights with ASEAN countries under the current international law framework? How can China fight for the right to speak and safeguard its national interests in the international arena?



**Hong Nong:** This is a very challenging issue. I have participated in many international conferences over the years regarding this topic. Our country is at a disadvantage in terms of having a voice in the South China Sea issue. Because when it comes to these countries, there is a common sympathizing attitude towards these small countries. On the one hand, it is a kind of sympathy for a small country, on the other hand, China is treated in a targeted manner. No matter what China says, how reasonable it is in law, how well it demonstrates in the courtroom, we are in a very weak and disadvantaged position and situation. However, we cannot do nothing because of this challenge. So we will build our own discourse system in the future. There is a lot of work to be done in this regard.

The problem we have now is that when many Chinese scholars talk to others, they tend to say something that is a bit like a statement, rather than a sophisticated analysis. I think China has a lot to do in terms of education. For example, many universities in China have specialized teaching in the field of the law of the sea. In terms of cultivating students, I feel that there are still a lot for improvement compared with other countries, such as Vietnam. They have sent many scholars in recent years, including their government officials to go abroad, to systematically study the law of the sea in the relevant institutions in western countries. After two or three years of study, these people return to Vietnam and return to their original foreign affairs or sea-related departments. These people often have communications with our own scholars in many international conferences. I think we can do more in this regard. Because I feel that it is a systematic and planned process to have a voice in the international arena. There are scholars of different ages and levels, including very senior scholars and scholars who are just getting started, or students. Different people can make contributions to it and there are a lot to do.

# View China's Policies towards the U.S. from the Perspective of Trump's and American Logic

Reporter: Wang Yuexin



## Da Wei

He is Assistant to the President of University of International Relations (UIR) and Director of the Center for International Strategy and Security Studies. He is mainly engaged in studies of U.S. foreign policies and Sino-U.S. relations and was Director of Institute of American Studies, China Institutes of Contemporary International Relations (CICIR).

The core problem underlying the current contradictions between China and the U.S. is how two different giant countries co-exist in the same system. From the perspective of the general trend, antagonistic or competitive factors in the Sino-U.S. relationship are rising, and the trend remains unchanged. A core challenge for us might be how to control such competition itself. Competition is inevitable and is not necessarily something bad, but if it is controlled, it will be prevented from developing into vicious competition. Competing with the U.S. for the so-called world or regional leadership should not be what we aim at. Our precious resources should not be wasted in great power competition and efforts should be made to prevent competition from dominating the Sino-U.S. relationship.

**Reporter:** Can you talk about your understanding of the Sino-U.S. relationship under the current international circumstances? What is the current Sino-U.S. relationship especially in political, economic and military aspects?

**Da Wei:** The core problem underlying the current contradictions between China and

the U.S. is actually how two different giant countries coexist in the same system.

China and the U.S. are two very different countries. The two present great political, economic, social and cultural differences and both of them are giants. How such two countries should live and coexist in a system and engage in friendly and healthy competition remains to be explored.

The U.S. believes that it will suffer losses in the competition with China in the international system and China, due to its own state system, is taking advantage of the U.S.. For the U.S., there are two ways to change the situation: one is to completely change China by altering the way China operates, which will not be taken by China; the other is to expel China from the U.S.-led system. Hence, the U.S. is actually trying to “disconnect”. The basic idea of the U.S. is that if you refuse changing, I will unhook connections with you.

Such “disconnecting” might have more effects on China though it causes a “lose-lose” result. So we expect to hold down the situation and maintain the status quo, that is, if you have specific requirements, we accept negotiations and compromises. Viewing the hot economic and trade issues some time ago on this basis, the Sino-U.S. economic and trade relations seemed to be stabilized for the time being through a short game and the “trade war” appeared to take a break for a while. But the problem has not yet been solved and the contradictions are still there. In view of subsequent developments, before the short-term relative stability could last long, Trump changed his mind again.

So return to your question, that the current Sino-U.S. relationship is undergoing a qualitative change. A comparison with the Obama administration or any other previous administration shows that there is a profound change at present that the U.S. begins to view China from the perspective of great power competition. This leads to a lot of negative and passive developments in the Sino-U.S. relationship. The last two weeks of May (2018) might show comparatively steady and slow negative development, but antagonistic or competitive factors in the Sino-U.S. relationship are generally rising and this trend remains unchanged.

**Reporter:** The U.S. is worried about China's taking advantage of it, but China hopes to develop in the system of globalization. It seems that the contradiction is irreconcilable, is it?

**Da Wei:** First of all, our exchanges with the U.S. are not unilateral or as claimed by the U.S. that "the U.S. is suffering losses and China is taking advantage of the U.S."; instead, such exchanges are win-win. This, however, involves relative gains. For example, the Chinese might earn 80 dollars and Americans might earn 20, and the latter does earn money.

The U.S. used to focus on absolute gains: as long as I can profit, it does not matter if you profit more. An important reason that the Trump administration stresses relative gains is that if it goes on like this, China will catch up with the U.S.. Trump hopes that the U.S. can profit more than China. But if the U.S. calls a halt, on the one hand, the U.S. will not only lose the 20 dollars, but might lose more; on the other hand, after all these years of dealings with China for years, it will be tough for people, interest groups and domestic politics in the U.S. to lose what they could have obtained, so the "divorce" will hurt both the U.S. and China.

**Reporter:** You mention in an article titled "The Evolution of U.S. Strategic Logic towards China and the 'Trump Shock'" published in last June that the formation of its strategy towards China by the U.S. contains a hypothesis, namely "what the U.S. has to do is to shape the direction of China's development, rather than to hinder the rise of China". What are the changes to the hypothesis? What are and will the effects be of such changes on the Sino-U.S. relationship?

**Da Wei:** The U.S. is divided on whether it is going to shape China, so we cannot draw such an exact conclusion about what the U.S. wants about China, but it generally expects China to be liberal. However, the National Security Strategy of the United States of America released by the Trump administration in 2017 states that "For decades, U.S. policy was rooted in the belief that support for China's rise and for its integration

into the post-war international order would liberalize China.....The belief is fundamentally wrong”. The U.S. officials have drawn a clear conclusion that they cannot and will not shape China any more, and the past practice is wrong. This viewpoint has become the mainstream of the strategy circle in the U.S. over the past few years, and is now included in an official document, which means it has been officially recognized.

Such change occurred before the Trump presidency or becomes clearer after Trump came into power, but the U.S. strategy towards China has significantly changed since the Obama administration. The Democratic Party, if taking power, might be more resolute because things might be better organized and the party will find more allies and will not make so many stupid mistakes. Of course, there is the unpredictability of Trump, but there is also something you probably know he definitely will do before he took power. This is partly owed to the situation he is in, as whoever takes power will work given how Americans generally view China. Besides, he has basically kept his promises made in the campaign. The so-called unpredictability lies mostly in his personality and style.

**Reporter:** Then, what policies towards the U.S. do you think we should take?

**Da Wei:** Our policy towards the U.S. is more stable than U.S. policy towards China. We were passive in the past, but as China grows strong, China can begin to gradually shape U.S. choices. In other words, we can consider how to shape choices made by the U.S. rather than passively coping with its choices.

For example, U.S. enterprises are very dissatisfied with China. Looking back, if we had been opening to the outside world faster and even come to an arrangement on bilateral investment protection agreements during the Obama administration, the current economic and trade relationship between the U.S. and China probably would not be the same today. This is a way of shaping. For another example, we have been inviting American congressmen to China and some of them have really been affected by China and find that they did not know China at all and that China is not something strange, but a country with its own characteristics, just like the U.S.. Then they changed their

view about China. With respect to the North Korea nuclear issue, we had been advancing our own solution and expected “suspension for suspension” between the U.S. and North Korea, which made a difference though both of them refused at the beginning, and finally the situation developed towards what China had advocated.

**Reporter:** Though Trump is changing, China might have a stable strategy. Can you predict the possible new trend of the Sino-U.S. relationship?

**Da Wei:** I think what we should do at present is to stick. The U.S. is threatening to disconnect and increase barriers, so we have to stick to the existing system because this system is more to our benefit and we might have to make some compromises sometimes.

Secondly, a core challenge for us might be how to control the competition. Competition itself is inevitable and is not something bad, but it should be controlled, so as to prevent it from becoming vicious and from dominating the Sino-U.S. relationship. The relations between China and the U.S. contain competition and cooperation in the long run. We have been thinking that cooperation outweighs competition, but this is not the case recently. We might not be able to stop it, but may try to expand cooperation.

Thirdly, we should control the cost on competition. How much will you pay for the competition with the U.S. even if we can do so? The competition will not be the same as that between the Soviet and the U.S.: China is burdened with a lot of, or is challenged mainly by, domestic problems. We should not waste too many resources in great power competition. Competing for the world or regional leadership is not the most urgent task for China. Therefore, this also answers our strategy towards the U.S., including the trade war that almost happens and similar issues, that is, we should restrain ourselves whilst insisting on the bottom line. Furthermore, some specific tactical requirements posed by the U.S. actually are not fundamentally different from our own plan, except for the change of our economic system, which we will not do, or the complete equilibrium of China-U.S. trade, which we cannot do. However, requirements such as reduction of customs duties and protection of IP rights are what we plan to do, with differences just in speed, scope and rhythm, on which we can compromise. This is not a matter of principle, right?

U.S. policy towards Asia contains a lot of long-standing factors, so it is more of U.S. policy towards Asia than Trump's policy towards Asia. Trump's personal style makes it seem violent or radical, but the general direction remains the same as before, with differences in how to do it. Take the North Korea nuclear issue for example. No matter who comes into power, the North Korea nuclear issue is equally important; but Trump's "maximum pressure" policy has heated the issue at one blow. The U.S. is consistent in its basic strategic objectives, but how to realize these objectives and its outcomes vary from president to president.

# Guided By User Needs, Using Artificial Intelligence To Solve The Problem Of Aging

Reporter: Zhang Lan



## Nie Zaiqing

Nie Zaiqing is currently the general manager of the Beijing Research and Development Center of Ali Laboratories (AI Labs). He is a well-known expert in Internet information integration and knowledge mining, and the founder of Microsoft Academic Search and Person cubic metre. Dr. Nie was a researcher of Microsoft Research Asia. He is the initiator and head of Microsoft's academic search, Person cubic metre and Enterprise Assistant EDI, and the technical lead of Microsoft's natural language understanding platform LUIS.

Artificial intelligence has permeated into every aspect of human life and is indispensable in the future. In solving the problem of aging, artificial intelligence has permeated from the medical and emotional aspects. The main obstacles we facing today are the weak learning and accepting ability of older people and the accuracy of speech recognition in natural language understanding. The purpose of our R&D products is to achieve “more natural interaction”, and the product development will be based on user needs, the product updates and iterations will be continuously carried out through user feedback.

**Reporter:** As of the end of 2017, there were 214 million elderly people over the age of 60 in China, accounting for 17.3% of the total population. While as early as 1999, the elderly population aged 60 and over had already accounted for more than 10% of the total population. China has been in an aging society for nearly 20 years. Aging has become a normal state. How do you think the current science technology are helping to solve the problem of aging?



**Nie Zaiqing:** The solution of science technology to solve the aging problem can be divided into three aspects. First of all, in the medical field, the technology for treating diseases is more advanced, and some diseases that couldn't solve before are gradually breaking through. Secondly, in terms of social capital construction and social connection, the elderly can break through the geographical restrictions and conduct online video and telephone conversations with their children at any time and place. To a certain extent, it not only eases the loneliness of the elderly, but also helps to strengthen communication with their children. Finally, a voice assistant like “Tmall Genie” helps the elderly identify drugs, language chats, intelligent operations and so on, bringing more convenience to the lives of the elderly.

**Reporter:** What bottlenecks do you think are facing the Internet, Internet of Things, artificial intelligence and other fields in solving the problem of aging?

**Nie Zaiqing:** The biggest obstacle currently is that many elderly people will not use these technology products because they are not used to such interactions and can't master the using skills, they prefer physical interaction between people. In addition, there are still some elderly people who do not like to learn to use new products based on experience and observation. Their interest and ability in this area is far lower than that of children. If you want to do a good job in this aspect in the future, you can try to subdivide them according to the age group or personality and learning ability of the elderly, and customize different products for different elderly people. In this respect, you can study first.

**Reporter:** There is a saying: post-70 is a refugee under the Internet, post-80 is an immigrant under the Internet, and post-90 is an aboriginal under the Internet. In terms of Internet learning ability, different groups do have differences. So apart from the bottleneck problem we just mentioned, what breakthroughs have the Internet of Things and the Internet made in solving the problem of aging in recent years?

**Nie Zaiqing:** The direct purpose of solving the problem of aging is to hope for “more natural interaction”, so that the elderly can feel the human-computer interaction more realistically, so as to reduce the incompatibility problems of the elderly and make the products better for serving the elderly. For example, some elderly people don't have good hearing, then, can we use a screen to write a large font for letting the elderly identify them with visual and auditory? Under the principle of “more natural interaction”, the product that has been developed and introduced to the market is the Tmall Genie, which is a material form supported by voice assistant. The future carrier may be the mobile phone, car or other objects. What we are talking about today is the “perceived cognition”, during which the software and hardware can be developed separately and independently. Especially in the cognitive part, it will better to promote the development of both.

**Reporter:** It is reported that you resigned from Microsoft in 2017 and entered in Alibaba Group. The two breakthroughs you are currently responsible for in Alibaba are the knowledge map and natural language understanding. How they act in solving the problem of aging? Can you explain how these two modules actually work?

**Nie Zaiqing:** The AliGenie developer platform launched in our lab was officially released in October 2017, and Alibaba's technology accumulated in the field of artificial intelligence was shared by API or SDK. The platform includes voice wake, voice recognition, voice input, natural language understanding and speech synthesis. Our research results in these areas have made the AliGenie platform more and more powerful, allowing developers easily to develop the daily functions that the elderly like, and let the artificial intelligence gradually enter the daily life of the elderly.

Taking the field of natural language understanding as an example, three modules need to be studied: the first module is intentional recognition, that means to ask for what is the user's true intention? In this process, the machine needs to classify the customer's needs and intentions. In addition to the intentional recognition, we also need “slot filling”

of course, which is to extract and input the parameters into the program. For example, when someone asking for weather forecasts, it will turn the unstructured languages into structured languages, that means it need to know the time and location of the weather forecasts, and finally connecting these parameters. The last module is dialog management, which directly determines the next action decision of the machine. For example, the machine can ask the customer a question, "What you need is the weather forecast on May 19, 2018?", or call the weather forecast API directly to get the weather forecast results data and then give feedback. In terms of natural language understanding, the most important problem to be solved is "diversity of language". Many words may even cause ambiguity, for example, the customer may ask a question, "What clothes should I wear tomorrow?". On one hand, the customer may ask the voice assistant for tomorrow's weather, on the one hand, the customer may be asking for the fashion styles and matching clothes, and even many times it expresses contrary to what one think. The broadness and profoundness of Chinese culture makes voice assistants face a lot of resistance in this respect, and it is more necessary to let the machine learn. Therefore, it is very important to identify the diverse natural language.

For knowledge maps, the most important thing is to build point-edge relationships between different networks. For example, there are many Xiao Ming in the world, the ID on the knowledge map is unique although the names are the same. Xiao Ming is a point, Fudan University is a point, and the Shanghai Forum is also a point. If Xiao Ming is a student at Fudan University, then Xiao Ming and Fudan University form an "edge", and the network of relationships between the edges and points constitutes a knowledge map. The study of knowledge maps (including the construction and fusion of knowledge maps, entity links, and knowledge reasoning) enables the machine to accurately map the user's natural language input to the map ID that the machine can perform.

**Reporter:** So can we fuse the relationship between the points and the edges, which means to fuse the knowledge map and the natural language understanding? Will such an idea help to solve the dilemma of language recognition?

**Nie Zaiqing:** Knowledge maps and natural language understanding are actually very

relevant. Natural language understanding is considered to be the most difficult problem in artificial intelligence. Being able to understand human problems correctly and give appropriate answers is very challenging. Natural language interaction reflects the level of human intelligence. Similarly, artificial intelligence is a process of accepting the “question” of users and being gradually accepted or eliminated by the market. For the natural language understanding, not only the input of words, the user expressions and physical movements also convey relevant information, we will incorporate these into the future.

**Reporter:** You just mentioned the natural language understanding need to identify the user's expressions and limbs, take the “Tmall Genie” as an example, can the new generation of “Tmall Genie” open to the eyes to identify users? But from another perspective, will these cameras pose the “information security” or “privacy leak” risk ?

**Nie Zaiqing:** A new generation of loudspeaker boxes should be visually capable. In fact, our current products “Tmall Genie” have visual ability. But in order to reduce the user's economic cost, we dock the phone camera and speakers to make the combination of vision and voice.

As far as security is concerned, I think we should ensure that the information of these users is only available to the machines and users authorized by setting the rules and programs.

**Reporter:** Regarding the privacy issues, it was also a hot topic on the Internet, especially Baidu’s rumor about “taking privacy in return for convenience”. In fact, the public's perception of products is a general state as a user: we don't think more about products that we have accustomed such as Alipay and WeChat, and don’t talk more about security issues because it is fully integrated into our lives. But for the emergence of a new product, we will be very vigilant and will consider the security privacy issues strictly, which makes it difficult for new

products to intervene. This is actually a “double standard”. What do you think of this phenomenon?

**Nie Zaiqing:** The statement of “taking privacy in return for convenience” is absolutely wrong. For the “double standard”, what we can do is to provide protection on the program to help the users with more confidence. For example, if the customer does not want other people except the authorization to see the data information, then we should ensure that the data is not known by them. This is the basic principle of doing research and developing products. As for the double standard of the user's inner feelings about the new and old things, it may be affected by the psychological status and trust mechanism establishment in a big environment.

**Reporter:** It is understood that the “Tmall Genie” broke through 1 million sales volume in nine hours in the double eleven last year by Taobao platform. The current price is only 89 RMB which is very affordable to public. In addition to the performance, will the operation of the product have a negative impact on the elderly? Is there an inaccurate algorithm or an AI error that poses hidden danger to the elderly?

**Nie Zaiqing:** Every new product will have an iterative update that continues to evolve. It is a process of constantly discovering problems and thinking about how to solve about them. But for special groups like the elderly and children, we have been as cautious as possible at the beginning. For children, we will filter the unhealthy information and avoid them being addicted to inappropriate things; for the elderly, we will try to avoid emotional excitement or something that they cannot accept. During the process of using the product, the user's product experience will be iterated and updated according to the needs of the elderly and children.

**Reporter:** Experts and scholars who study the problem of aging are doing research on the portrait of the elderly needs. Regarding the needs, technology can be followed up timely, and we can try to match the personal customization

technology especially for the unique personal needs of the elderly. So what is the current state of technology development in this area? Does the dialect question need to be considered if the product is promoted?

**Nie Zaiqing:** China's intelligent voice assistant industry started later especially in the smart speaker market. But the development speed grows fast, and we have become the third in the world (according to the data provided by Strategy Analytics) in just one year, what's more, what we do currently is the Chinese market. In fact, we are not weak in this aspect of strength, but the question of which needs and dialect to be solved first is more based on the market demand, we will update and iterate them in time.

**Reporter:** From the perspective of technology developers, what do you think of our current industrial environment? How should the government provide a better industrial development environment to promote the development of related technologies? And in terms of solving the problem of aging, what aspects do you think technological innovation should start with?

**Nie Zaiqing:** As far as my own working environment and personal feelings are concerned, I believe that the current industrial environment is very good overall, and the government is very supportive of the artificial intelligence development. In solving the problem of aging, we need to start with “scene, data, ecology, algorithms” and so on.

