

NEWSLETTER SHANGHAI FORUM



ECONOMIC GLOBALIZATION AND THE CHOICE OF ASIA

Vol.6 No.1 (Gen.22) Sep. 2012



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NEWSLETTER SHANGHAI FORUM

Shanghai Forum Newsletter is a publication of Shanghai Forum Organizing Committee. It aims to promote the Forum's publicity and influence in academic, political and business circles. It includes news releases, feature reports, major projects, and consolidates the Forum's progression in different phases so as to boost the Forum's development.

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Shanghai Forum (2012) Opening >>



Shanghai forum (2012) launched its grand opening ceremony at Shanghai Xijiao State Guest Hotel on the morning of May 26th. In attendance were Han Zheng, Mayor of Shanghai, Hao Ping, Vice Minister of China's Ministry of Education, Yang Yuliang, President of Fudan University, and Tae-won Chey, Chairman of the Board and CEO of SK Group, Korea, who all delivered addresses. Zhu Zhiwen, Chancellor of Fudan University, acted as host. Zhu Min, Deputy Managing Director of the International Monetary Fund, James B. Steinberg, Dean of Maxwell School, Syracuse University, and Former Deputy Secretary of State, Long Yongtu, Member of the Council of Advisors of the Bo'ao Forum for Asia and Former Vice Minister and Chief Representative for Trade Negotiations of the Ministry of Foreign Trade and Economic Cooperation, Carlo Carraro, Vice-Chair of Working Group III, IPCC and President of University of Venice, and Yuan Zhigang, Dean of School of Economics, Fudan University made keynote speeches. Park In-kook, President of Korea Foundation for Advanced Studies was the host of the session for keynote speeches.

According to the schedule, Shanghai forum (2012) is held from May 26th to 28th, with the theme of "Economic Globalization and the Choice of Asia: Strategies for 2011-2020". During the three-day period, over 500 guests from more than 30 countries and regions around the globe gather together in Shanghai, holding extensive, multi-dimensional and in-depth discussions over the theme, and reach a cross-discipline Consensus for the 2012 Forum.

This year, the Forum has invited Han Zheng, Mayor of Shanghai, Hao Ping, Vice Minister of the Ministry of Education, China, Zhu Min, Deputy Managing Director of the International Monetary Fund, James B. Steinberg, Dean of Maxwell School, Syracuse University, and Former Deputy Secretary of State, Long Yongtu, Member of the Council of Advisors of the Bo'ao Forum for Asia and Former Vice Minister and Chief Representative for Trade Negotiations of the Ministry of Foreign Trade and Economic Cooperation, Carlo Carraro, Vice-Chair of Working Group III, IPCC and President of University of Venice, and Yuan Zhigang, Dean of School of Economics, Fudan University, Tae-won Chey, Chairman of the Board and CEO of SK Group, Korea, Park In-kook, President of Korea Foundation for Advanced Studies, Korea, Paul A. Volcker, Former Chairman of the Federal Reserve, and Adam Przeworski, Professor of Politics and Economics, New York University, and other distinguished guests.

This year's forum sports ten panels, focusing on the topics of "International Trade, Investment and Governance in an Intensifying Economic Crisis", "The New Mission for International Monetary Governance: A Win-win Situation", "Economic Development and Social Transformation: the Historical Experience of Social Transition in East Asia and China's Future Developmental Path", "Entrepreneurship, Innovation and Sustainable Management", "Creating a New Regional Order in East Asia", "Legal Cooperation in Asia for 2011-2020", "Asia's

Urbanization and Urban Transition for 2011-2020”, “Asia’s Population and Social Development for 2011-2020: New Challenge, New Strategy”, “East Asian Ecological Construction and Strategies for 2011-2020” and “Low Carbonization, Security and Ever-increasing Demand: Restructuring the Asian Energy System”. Meanwhile, three roundtables cover the hot issues of free trade area, renewable energy and financial governance.

Compared with previous rounds, Shanghai forum (2012) pays closer attention to the interactions among academic, political and business sectors by inviting business leaders from the fields of electronic vehicle and finance to roundtable discussion, in order to require first-hand experience and find new solutions to current social problems. The Forum of this year aims to draw a blueprint for the world’s future development, and as young people are the main force of the future, outstanding students and young leaders from various industries of Shanghai are thus invited, for the first time in its history, to attend the meeting where they exchange ideas and learn from each other. Furthermore, this year’s forum attaches great importance to its political advisory function by forming policy proposals to Shanghai Municipal Government about the city’s future development, which highly reflects the fact that the Forum is deeply rooted in Shanghai and ready to make contribution to the city.

Shanghai Forum is an international economic forum jointly hosted by Fudan University and Korea Foundation for Advanced Studies. This is the seventh

annual conference since the first in 2005. During the past seven years, the Forum has attracted around 2300 people from home and abroad to its annual symposium. Serving as a platform for interactions among academic, political and commercial circles, Shanghai Forum takes its mission to “Concentrate on Asia, Focus on Hot Issues, Congregate Elites, Promote Interactions, Enhance Cooperation and Seek Consensus”. The Forum has invited elites and leaders from all circles to communicate and cooperate, and endeavors to hold extensive, multi-dimensional and in-depth discussions over significant issues related to current global economic and political realities, so as to provide suggestion and advice for the overall economic, political, social and cultural progress of Asia.

Shanghai Forum (2012) attracts the attention of mass media, including Xinhua News Agency, China Daily, Global Times, China News Service, Jiefang Daily, Wenhui Daily, 21st Century Business Herald, Oriental Morning Post, Shanghai TV Station, Lianhe Zaobao, Phoenix TV, People’s Daily Online, Sina Website and Tencent. Organizers of the Forum also conduct timely reports via its official micro-blog in order to enhance its influence. Furthermore, Sina Website, the Forum’s Media Partner, launches “mini research and discussions” twice for ideas of experts from relevant fields and makes live broadcast of the meeting through its financial channel with detailed information.



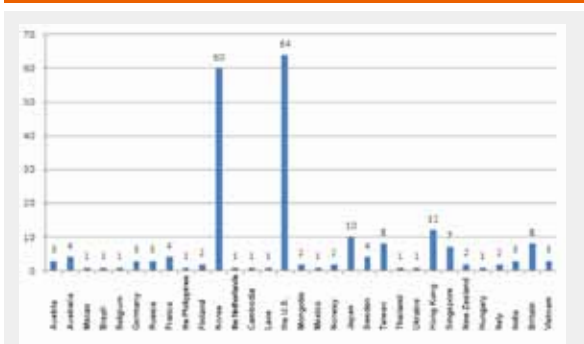
Summary Meeting on Shanghai Forum (2012) >>



The summary meeting for this year's Shanghai Forum was held on the 28th of June at the Multi-functional Hall of Fudan University's Yi Fu Science and Technology Building. In attendance were Professor Lin Shangli, Vice President of Fudan University, Prof. Chen Yinzhang, Secretary-General of the Forum and Advisor to the President on International Affairs at the University, and Prof. Zhang Yi, Executive Vice-Secretary-General of the Forum and Director of the Forum Secretariat Office, who all gave relevant reports. Sub-forum chairs as well as other members of the Organizing Committee and Academic Committee also attended the meeting and made reports from their respective sides.

Professor Chen Yinzhang chaired the meeting and discussion. Firstly, Prof. Zhang Yi made a summary of the Shanghai Forum's overall organization and administration, covering guest invitation, academic products and media publicity as follows:

Guest Invitation: Shanghai Forum (2012) attracted 530 guests all over the world, among which, 217 were overseas. Participants of the meeting made 304 presentations and handed in 223 academic papers in total. All figures reached a record high in the Forum's history.



Shanghai Forum (2012) invited a total of 530 guests from 32 countries and regions all over the world

Academic Products: the Forum published *Paper Selections* in three volumes from the submitted papers of its previous rounds with a total number of 1,233,600 words, made two volumes of *panel research reports* containing altogether 171,500 words, issued the annual *Shanghai Forum (2012) Consensus* based on panel research and submitted conference papers of

this year, and sent *policy proposals* (Fudan scholars' edition) to Shanghai Municipal Government for policy consultation. Meanwhile, student reporters from Fudan University interviewed more than 50 guests concerning the world's future development, in terms of which *Interviews with Scholars* would be published after the conclusion of the Forum along with *policy proposals* (international scholars' edition).



Diverse academic products

Media Publicity: About 40 media made reports of Shanghai Forum (2012), including important Chinese media such as *21st Century Business Herald*, *Global Times*, *People's Daily Online*, *Xinhua News Agency*, *China News Service*, *Jiefang Daily*, *Wenhui Daily*, *Oriental Morning Post* and *Shanghai TV Station*, and well-known overseas media like *Lianhe Zaobao* and *Phoenix TV* with eight times of headline news, 4 times of TV news and 794 times of re-transmission by the Internet. Media publicity exerted huge influence, as the theme of this year's forum became a hot topic of social discussion.

The second speaker, Professor Lin Shangli, reviewed the academic performance of the Forum, in which he pointed out the continuing need for the Forum to pursue high-level academic quality and promote diverse thinking, foreseeing that this would develop post-session academic products based on previous research and Forum discussion. Professor Lin suggested that some sub-forums could be encouraged to keep private sessions so as to ensure free and in-depth deliberation, and that organizers should make full preparation prior to the conference to guarantee a deep understanding of their research areas.

During the following session, sub-forum chairs illustrated features and highlights of their respective sub-forums, shared experience from their preparation process and expressed hopes for the Forum's future development. Towards the end of the meeting, participants reached a consensus that the Forum should focus on Asia and have a long-term blueprint. Further, it should be required to develop post-session academic products and maintain cooperation with Asian consulates and think tanks. This would make necessary the formation of a stable operation mechanism running throughout the year for the purpose of enhancing the Forum's influence and attracting a wider range of attention, so that the Forum could aim to establish a platform for communication among political, academic and business circles, and between young elites from Asia.

Vice President Lin Shangli concluded the meeting with an expression of his sincerely felt gratitude to all those who had made contribution to the success of this year's Forum.

Roundtable “Renewable Energy: Enlightening the Asian Green Development Roadmap” >>



In the afternoon of May 26, 2012, Shanghai Forum Roundtable “Renewable Energy: Enlightening the Asian Green Development Roadmap” was held at Shanghai Xijiao State Guest Hotel. During the first half of the Roundtable, Lewis M. Fulton, Director of the Energy Technology Division, International Energy Agency, Hu Zhaoguang, Deputy Director of State Grid Energy Research Institute, Chen Xinhua, President of Beijing Energy Club, and scholars from various areas had a heated discussion on the topic of “Asian Renewable Energy Development: Global Context And Asian Strategy”.

Mr. Lewis M. Fulton said that some revolutions on technology must be made if we want to achieve the “low-carbon society”. Today, China's net oil import demand remains strong, which is closely related with the development of China's auto market. The 1.3 billion population and 230 million cars with the larger growth potential show the great demand for oil of China in the future, along with the big influence on the CO₂ emission. Considering the carbon emission, the development of electric vehicles will be an important method for us to achieve the “low-carbon” situation. China aims to get the 2 million PHEV target in

the year of 2020, as well as the other “ambitious target” countries. If these countries and regions could achieve their goals, the world of electric vehicles will be in the further step of mass production and market.

Professor Hu Zhaoguang took the smart grid as a starting point to make a speech on the bottlenecks and challenges of China's economic growth. He thought the electricity is the key point in China's economic growth. China is now facing a lot of challenges such as the large energy demand, the risk of oil importing and the big share of coal. To deal with this situation, more researches should be done on the electricity emission reduction and energy saving with the starting point of smart grid. It is predicted that by 2020 the establishment of the smart grid will contribute to one-third of emissions of carbon dioxide removal. Government policy will play a key role in the construction process of the smart grid.

Mr. Chen Xinhua said, the new energy research should be focused not only on the point level, such as on the new energy technology research, but also on the line and surface level, especially on the combination of the three and on promoting the comprehensive development of renewable energy. In the development, the interference and uncertainties should also be noticed.

The second half of the meeting was on the topic of “Accelerating the Industrialization of EV: Market Cultivation, Technology Choice and Policy Support”. Kim DongSub, Head of Innovation Department of SK Telecom, Wang ZiDong, Director of Battery Testing Lab,

China Northern Automotive Research Institute, Fu GangZhan, Director of Center For Automotive Industry, Tongji University, Min Haitao, Vice Dean of Automotive School, Jilin University, Sun Liqing, Deputy Secretary General of China Electrotechnical Society, Liu Minhui, Director of Electric Car Department, FAW Technology Center, Lin Yi, Executive Director of Beijing Renewable Auto, shared their opinions. Prof. Wu LiBo of Fudan University was the chair.

Prof. Kim DongSub, said that at present the electric car development has a lot of uncertainty, especially in battery technology development. The cost of the batteries has been largely decreased and the safety problems have been greatly improved, but there are still a lot of space to improve. The battery technology is the key to the development of electric car.

Prof. Wang Zidong also talked about the reliability and safety of the electric car battery. He introduced some battery security cases. Wang Zidong argues the energy control of Chinese car companies should learn from advanced enterprises in Japan and South Korea.

Prof. Fu Gangzhan talked about "The goal and path of China's energy saving and new energy vehicles industrialization". He thinks that we should pay attention to two points in China's supply of electric cars. One is production permission, the other is the supply bottleneck. In the 2015 years, public and commercial cars will be the electric car market's main substrate, and short small cars will become the transition point of the market demand.

Next, Prof. Min Haitao shared his view of low carbon car development. Prof. Min thinks that firstly low carbon car is necessary, and secondly, universities should be prepared in the development process of low carbon cars, including providing related courses, talent cultivation, the school-enterprise cooperation, etc.

Prof. Sun Liqing talked about problems in the process of development of new energy vehicles. He said it is difficult to start a new energy vehicle market, for the market demand varies greatly. So enterprise innovation should be enhanced, and there is still large space for government actions. In the new energy vehicles promotion process, the government should play its important role.

Finally, Mr. Liu Minghui and Prof. Lin Yi shared their view about the topic from the perspective of new energy vehicles manufacturers. They think that the whole industry chain of new energy vehicles is not developed, and the technology will be the key to breakthrough. In the future development planning, the electric car technology development is the power of the market penetration.

At the end of the meeting, experts and scholars also talked about the current electric car promotion mode, the government's role in the electric car development process, and the electric car's future prospects. They have reached an agreement that the government should become the driving force of electric car market for preliminary development, and 2012 will become the first year for great development of electric cars.

Roundtable “Free Trade Area in the Global Economic Pattern Restructuring” >>



On the morning of May 27, Shanghai forum (2012) Roundtable “Free Trade Area in the Global Economic Pattern Restructuring” was held in Fudan University. Professor Li Xiangyang of Chinese Academy of Social Science, Professor Song Wongun of Korea Economic Research Institute, Professor Toshiaki Hasegawa of Chuo University, Tokyo, Professor Xu Hongqiang of Foreign Economic Research Department, Doctor Yao Weiqun of Shanghai WTO Affairs Consultation Center, Professor He Xiyou of Institute of World Economy, Fudan University, Professor Yin Xiangshuo of School of Economics, Fudan University, and scholars from various areas had a deep discussion on the theories and practices of the foundation of an East-northern Asian Free Trade Area.

Professor Li Xiangyang expressed his opinion on the TPP’s influence on China. In his opinion, TPP is an important part of the returning to Asia-Pacific policy of the U.S. Despite the economic reason, the U.S. strongly supports TPP for the purpose of popularizing

the American values, and preventing East Asia from forming a China-centralized area union. In the future, it is easy to form a TPP 9 countries group, but to form a TPP 12 countries group depends on the attitude of Japan. To China, the exclusiveness effect in the economic practice is very small, but it cannot be ignored in the strategic area. If TPP 12 countries group is formed, then the ASEAN 10+3 supported by China will be delayed.

Professor Song Wongun expressed his own idea about how to realize the free trade strategy under such new world environment. After the 2008 financial crisis, such developed countries as the United States and EU members do not perform well in economy. On the contrary, the emerging markets show strong rebounding trends, thus driving the global economy on the whole. At the same time, the share of South-South trade in the total global trade has also grown gradually. China, Japan and South Korea should spare no efforts to encourage the internal market in East Asia, so that we could be relieved of our heavy dependence on western markets. Such free trade area strategy taken domestic market demand as the core will ensure a more stable economic growth in China, Japan and South Korea.

Professor Toshiaki Hasegawa then analyzed the difference between APEC’s structure and EU’s structure in trade area. EU established the institutional structure first and then began the trade within the area. In APEC, the structure

was formed in the market first and then codified and developed. Moreover, APEC hopes to realize FTAAP within WTO's structure, which requires the cooperation between China, Japan and Korea. Professor Xu Hongqiang discussed the future of the FTA of China, Japan and Korea. The collective study on government, industry and education of China, Japan and Korea has been completed in the end of 2011. The FTA negotiation is going to begin in this year. The establishment of the FTA has many difficulties within the three countries. On one hand, the final product market within the area is underdeveloped. On the other hand, the political willingness of the three countries is still uncertain. Bilateral free trade areas can be established first within the three countries, and the cooperation within the industries shall be enhanced, which can be helpful for the final establishment of the FTA of the three countries.

Doctor Yao Weiqun showed the future of Sino-Korean Free Trade Agreement from the perspective of the collective study on government, industry and study. This research studied the Sino-Korean free trade area from trade relation, product trade, service, investment and IPR, and proved the benefits exceeds the lost if the free trade area is formed, and especially that Korea gains more benefits than China. However, there are many difficulties in the negotiation on the FTA, which requires the further cooperation between the two countries' governments.

Professor He Xiyou analyzed China's strategy on FTA. It's a right choice for China to establish the structure of ASEAN 10+3. To develop the trade partners, China should try the easy and near ones first and then the difficult ones. The cooperation shall be developed from the liberation of trade into other fields and protect the energy supply.

Professor Yin Xiangshuo analyzed the

concentration and complementarity of Sino-Korean Trade by the example of machinery industry. His study shows that the machinery trade between China and Korea is very tight. On the same time, the complementarity rate of the machinery trade is also very high. There is a complementary relationship between the endowments and trade structures of China and Korea. Thus to establish a Sino-Korean FTA is beneficial to both sides.

Roundtable “Governance of Global Finance and International Policy Coordination” >>



In the afternoon of May 27, Shanghai Forum (2012) Fudan Finance Summit Roundtable was held at Siyuan Conference Hall, Guanghua Towers, Fudan University. Shanghai municipal government officials, Fudan University leaders, and Park In-kook, President of Korea Foundation for Advanced Studies, attended the meeting and delivered opening remarks at the welcome ceremony.

Guests of the roundtable were by special invitation only. Under the theme of “Governance of Global Finance and International Policy Coordination”, the roundtable was divided into three sessions discussing respectively on topics of “Challenges to Global Governance”, “International Policy Coordination and the Role of China” and “RMB Internationalization and Construction for Shanghai International Financial Center”. Wu Xiaoling, Vice Director of the Financial and Economic Affairs Committee of NPC and Former Vice-Governor of the People’s Bank of China, Li Yang, Vice President of the Chinese Academy of Social Sciences, and Fang Xinghai, Director of Shanghai Municipal Financial Services Office, made keynote speeches.

Participants of the roundtable also included Young Han Kim, Professor of Sung Kyun Kwan University and Economic Consultant of the Korean Government, Lin Shu, Professor of School of Economics and Academic General Secretary of Financial Research Center, Fudan University, Liu Ligang, Head of Greater China Economics of ANZ Bank Group, Eiji Ogawa, Vice President of Hitotsubashi University and Member of Policy Advisory Committee of the Ministry of Treasury, Japan, Lars Oxelheim, Professor of International Business and Finance at the Lund Institute of Economic Research of Lund University and Chairman of the Research Faculty and of the IB Program, Shen Jianguang, Managing Director and Chief Economist at Mizuho Securities Asia Ltd. and Adjunct Professor at School of Economics of Fudan University, Sun Lijian, Director of Financial Research Center, Vice Dean of School of Economics and Vice Director of Institute of World Economy, Fudan University, and Wing Thye Woo, Professor of Economics at UC Davis, Senior Researcher at Brookings Institution and Project Director of Globalization and Sustainable Development of the Columbia University Research Center.



Opening & Closing Ceremony Addresses Excerpts



Han Zheng

Mayor of Shanghai

Under the background of world adjustment and change, it is meaningful for this year's Shanghai Forum to choose "Strategies for 2011-2020" as its topic, and to discuss Asian strategies and ways of development. Currently, world economy is recovering slowly, and the overall situation is still complicated and harsh. At the same time, the adjustment of world economic structure is pacing more quickly; a new round of technology innovation and industry upgrade is on the way; economic globalization and regional incorporation develops more deeply; and the power of emerging market countries continues to grow. According to the positioning of Shanghai given by the central government, Shanghai will firmly go along the way of scientific development, stick to innovation and transformation, deepen reform and broaden opening, and make contribution to China in its process of building a well-off society in all aspects and its development of modernization. History moves forward through twists; world develops amid changes. There are indeed hopes among difficulties, just as there are surely opportunities hand in hand with challenges. We look forward to sharing profound knowledge and keen insights of our distinguished guests on the top-level platform for dialogue and communication as the Shanghai Forum.

Hao Ping

Vice Minister, Ministry of Education, China

In the face of the future, every country in the world needs to strengthen economic and financial cooperation with other countries, and more importantly, needs to deepen cultural communication. The Chinese government pays high attention to launching cultural communication with other countries, through which the government tries to solidify the public and social foundation for the development of relationship with other countries. Shanghai Forum hosted by Fudan University is also an important platform for cultural communication. I hope that in this year's forum, every guest can make full use of this platform and cooperate steadily, thus making positive contribution to promoting cultural communication and pushing forward world sustainable development.





Yang Yuliang

President, Fudan University

Change and justice, cooperation and win-win situation should become the common goal of economic and social development in Asia in the next decade. Looking forward to 2011-2020, Asian countries should seek further development and cooperation in economy, trade, finance and other aspects to achieve mutual development of the society and the country. Shanghai Forum would like to establish a common value to solve real problems with academic spirits, and to boost confidence in a bright future with the interaction of ideas and wisdom. The confrontation and consensus formed here will help present to the world a vigorous and harmonious Asia in stable progress and development.

Tae-Won Chey

Chairman of the Board & CEO, SK Group, Korea

Asian countries should work together to create wealth, deal with crisis and achieve mutual growth. Shanghai Forum will become a very important medium that allows us to share wisdom, promote our common social values, and propose practical solutions through discussion. I believe, through our extensive, in-depth and interactive discussion instead of a one-time discussion, the power of collective wisdom will be given full play, and we will be better equipped to face the challenges ahead and put forward sustainable solutions.



Park In-kook

President, Korea Foundation for Advanced Studies, Korea

For Asia, on the one hand, we are proud of our long history and profound cultural, while on the other hand, we are lacking in effective communication with each other. That is why we need to establish dialogue mechanisms like Shanghai Forum to facilitate the exchange and communication among us, which is of great importance.

In the twenty-first century, in addition to creating profits, enterprises should also assume their social obligations, which mean that they need to take more responsibilities for the society. Just like the Chinese old saying I quoted on the banquet of the opening ceremony, "when people work corporately, Mount Tai will be removed." If we can work jointly and cooperatively, we will definitely solve the mountain-like difficulties.



(Edited from a shorthand record)

Opening Ceremony Keynote Speeches



Zhu Min

Deputy Managing Director, International Monetary Fund

First of all, thanks to Mr. Chairman for the kind words of introduction, and thanks also for the invitation from Fudan. As a student of Fudan, it's a great honour for me to come back and also to have this opportunity to say a few words to these absolutely distinguished guests.

This is a conference about the strategies for Asia in the next ten years. This is Asia in a changing world. The world is really changing. I cannot go through the whole thing – but I will show through a few studies how the world is changing and how Asia fits into this changing world. We have experienced a very dramatic and strong economic growth over the past forty years. In the past forty years, we have observed very strong GDP growth rates, particularly since the year 2000. This is in normative terms, and in real terms GDP has increase fourfold for the whole world.

But that's not the whole story. If you're looking for trade, trade has been much stronger over the past 40 years, growing roughly ten times. Trade in

terms of the global GDP ratio has increased from 11% of 40 years ago to 23% at present – more than double. But that's still not the full story. In terms of the financial sector, there has been a fourteen-fold growth, with accelerating growth after the year 2000, since the same time forty years ago. All these activities have been supported by a strong monetary supply, propping up the whole system. The money supply also increased fourteen-fold globally over the past 40 years.

The world interlinked through trade and financial channels. Across this dramatic change, we have had to literally redraw the global map. [Indicating map on screen] this is a map we see every day, and one that coheres to geographic sense. Now – we may this new map by GDP. Look how the map changes – most noticeably how Russia becomes very small. America is still there – number one – and then China – number two; and Japan is big, as is Korea. This I call the 'global economic map'. If we weigh the map again, this time by trade, we notice more changes. You see how America becomes smaller,

China becomes bigger, and Europe becomes much bigger. If we take trade between European countries out, they become much smaller. Korea remains large. Russia is still small.

If we observe how the 'financial world' operates, we again notice changes. China suddenly becomes small, Russia smaller, but the European nations become huge. Hong Kong is noticeable. Japan is big. Anybody notice this place? – It's Luxembourg. So the map again changes. But more important, if we observe these three maps, we can see countries growing in different directions. There is a strongly linked economic and financial world today, so when we see our world map, we have the think of these other maps. But that's not the whole story – we have to be able to observe how these countries link to each – other. Back to the normal map, we can see how all countries observed their links change dramatically over the past 20 years. They move, and today the whole world forms three major clusters, as I call them. The first cluster is that of the advanced economies, always linked to one another. The second cluster is the Asian – or Pan-Asian group. Asia is forming a vertical linked supply chain, bringing in more and more countries. You would not believe this – but Brazil and Chile belong to the Asia group, as to Tanzania, South Africa and Gabon. But more and more of these countries are joining Asia to become a globally integrated vertical supply chain. The third cluster is the oil cluster. You see how different these countries are – Nigeria, Sudan, Kuwait, Russia, Kazakhstan, all in different geographic areas, but they share the same features, and most importantly they share the same business cycle. They are linked together.

I will return to this map. This is the world today – how are we to understand how these three clusters link to each other? Consider Europe before the Euro. From

1984 to 1999, before the Euro, there were two centres, one in the South in France and Italy, and the other in the North, but not in Germany, but in the UK. With the arrival of the Euro, these countries all moved closer together and today they are very strongly linked together. This is the tremendous role that the Euro has played in bringing European countries together.

We still have to try and see how clusters link to each other. We can see the whole world's clusters as core areas with 'gatekeepers'. Let me show you a picture, with the global structure of the three clusters. China really belongs in the core, close to the advanced economies of the US, UK, Germany, but not of Japan. This whole area represents a vertical supply chain, with China leading the whole region in manufacturing. Japan is not in this core area, though China's dominant core overlaps with Europe.

This map represents the machinery trade. The core of this area is represented by China, the United States and Germany. The core expands out into all areas – China in Asia and Africa. These cores penetrate to countries across the world, as well as growing closer together across time.

So – when the world moves, how does it find itself linking to itself? We can observe easily how over past years the level of connection between people of similar asset classes has increased dramatically across geographical contexts, from fifty percent to over eighty percent. The correlation across asset classes and across regions has increase dramatically. Let me illustrate with a detailed case. The green line represents the Latin American market, and the red line represents the Asian market. The co-movements of these two markets were at 42% ten years ago. Now it is 81%. Can you believe it?

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The Asian emerging economies and the Latin American economies are so closely interrelated. We cannot think about this – because Latin America is not in the supply line of Asia.

External shocks play a more and more important role in the present day. Before the economic crisis, only 30% of shocks to production could be explained by external factors, but after the crisis we measured this susceptibility to shocks at 60%. We are all exposed to many more external shocks, not only the emerging market, but also the advanced economies.

I would say, with these forty years of economic growth, the world has really changed. And it continues to change. It is obviously changing today, as we speak, now. We are much more interconnected, and the world forms three major clusters in the advanced economies, the Pan-Asian supply chain, and the energy group.

Now let me come to the issue – the strategy formation in Asia over the next ten years. The first question we ask is, is the Asian cluster formation complete? The answer is ‘not yet’. Asia’s supply chain continues to expand, grabbing more and more countries to join its supply chains. The map of the world has changed due to this change. It has created huge opportunities for the entire Asian region. Obviously, with Asia forming more supply chains, it exposes a greater risk to external shock. We all remember the impact Asia-wide and world-wide of the Japanese earthquake, but even the floods in Thailand had a tremendous impact on the supply chain across Asia and the whole world. Asia is exposed as well to the global risks of financial assets. People in Korea complain to me about the great volatility of their own currency, even compared with the Japanese Yen, over the course of the last ten years, because of capital moving in and moving out.

What will happen over the next ten years? In the next ten years we can probably expect to see in the Asian region firstly an increase in the supply chain. It will be more vertically integrated and move forward, it will push the advanced economies further up the value chain and further into the service areas. This will cause a global restructuring in global manufacturing. We have observed particularly dramatic global restructuring in manufacturing over the past five years. We expect to see it to move even faster in the next five to ten years, with Asia leading the way.

The second issue is – Asia is going to experience a dramatic financial sector reform, and take on more financial capital, with this year being absolutely critical. The emerging middle-income countries are forecast to account for over 50% of world G.D.P. by the end of this year. This is a first in modern world history. This is changing the entire global demand equation. Yet while these countries account for 50% of global G.D.P., they still only account for 9% of global financial assets. Money we expect to move away from advanced economies, and towards these regions, in a big way. But the financial market in this region is not yet big enough, so we expect a great degree of volatility. We have already seen signs of this in 2008 and 2009 with dramatic changes of over 20% in the Korean currency, and dramatic changes in the India rupee as well. This capital flow is good news, since it can be used to support infrastructure reform and financial reform and investment – but you need a market and a system. This is the regulatory framework that Asia requires, and the enhancing of government transparency likewise. That is the next big move.

The third big move is the service sector. With Asia fixed on an export oriented economy model in recent history, it faces the need to grow a greater level of internal demand. You need a more open service sector,

and a more open service model, so that people can find more jobs and find more ways to spend their money. The service sector lags behind, especially in terms of productivity, from the level it should be at. In fact, worldwide levels in the trade sector continue to be much higher than the service sectors, with advanced economies boasting great numbers of service sectors. These countries wish to open up service sectors in developing regions that enhance trade between their own nations and the developing economies. Service sector globalization is the next big thing in the Asian region. Obviously, the most important thing for the region is to ensure the inclusiveness of the growth. Create more jobs, and distribute income more equally, so that people can fairly share the fruits of growth. I think this is an issue more important than ever today, for Asia and China.

My time is up. To conclude, I would say that over the past forty years, we have seen dramatic growth in financial sectors and services and change. The world has really changed. Still, when we look at the map, we have to think of economic change, financial change, and the trade map. We are interconnected, in three major clusters, with the Pan-Asian vertically integrated supply chains still growing, still expanding. There are huge opportunities for manufacturing restructuring, service sector expansion. These are the most important challenges we anticipate over the next ten years for the emerging economies of Asia.

(Edited from a shorthand record)

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James B. Steinberg

Dean, Maxwell School, Syracuse University
Former Deputy Secretary of State

It's a great opportunity to be here at this wonderful Forum, I want to pay tribute both to Fudan University and the Korean Foundation for Advanced Studies both for their commitment to this dialogue and for this opportunity to think of a creative and imaginative ways to effect changes in the world. It's especially a great opportunity for me recently, having left the practice of policy, to have a chance to organize my own thoughts and share them with you – particularly as the subtitle of the Forum indicates, to think about the challenges of building a peaceful, stable and prosperous Asia for the 21st century. It's also given me a chance to reflect about history, my friend Zhu Min has given us some indication of the sense of change here. I made my first visit to Fudan sixteen years ago in the company of U.S. Secretary of State Warren Christopher, when he outlined where he thought the U.S – China relationship could progress over the years. Two years later, I accompanied President Clinton on his historic trip to Shanghai. Over the last nineteen years, I have had the chance in government to affect how we think about U.S. – China relations and strategy and strategy of East Asia. Still, I would like to remark that my views

today are those of a private citizen and do not reflect the opinions of anyone other than myself.

It's a commonplace to talk about dramatic change in this region, but it deserves restating. Few would have imagined forty years the political and economic forces that have shaped the region over this period of time. Yet, for those who have an even longer experience than these twenty or forty years, or who have studied their history, it's also possible to recall how many times over the past centuries that power and influence and economic powers have moved and changed and ebbed and flowed across the Pacific and among the powers of the Asia – Pacific region. I make this caution because it is critical to avoid assuming that what we see today will be what will happen tomorrow, and to resist the temptations to make straight line projections from the current situation to future events. It is especially critical for policy-makers, who have a responsibility to not only think about today and tomorrow, but also future generations. Indeed, while predicting the future is impossible, what is certain is that the unexpected is more likely than the expected.

It is especially important to focus on long-term trends in East-Asia as we enter into a year of leadership change in many countries across the region. 2012 began with elections in Taiwan, followed by Russia, and the year will end with elections in the United States and South Korea. And, here in China, we will be seeing the Eighteenth Party Congress. Those are planned leadership decisions but there may also be unexpected events, as we have seen most recently in North Korea. While the future may be unpredictable by nature, I do believe that as we think about the decisions and events of this year, they are just as likely to produce continuity as change, but in any case, whether they do produce change or not, they will put in place a generation of leaders who will influence the policies of change in this region for as much as a decade to come. These leadership decisions are particularly consequential because of the growing international attention to the central role of East Asia across the core spectrum of policy changes of our time, from global economic growth to climate change to economic security and nuclear proliferation and public health and the efficiency of global political institutions. More broadly, the choices made by the leaders assuming office in this region, or maintaining their power in 2012 will shape the political relations amongst states in this region at a time when these relations are in great flux. Decisions that are taken in the coming years could affect and determine the stability of the region for a generation or more. Each of the key states in this region, not just the United States and China but also powers such as Japan, South Korea, Indonesia and increasingly India, are in the process of defining their long-term regional strategies. It's important to emphasize that the choices facing the leaders in this region are not limited to matters of foreign policy and international affairs. On the contrary, key decisions about domestic matters – budgets, fiscal policies, environmental and social welfare programs, will have equally significant consequences for the peoples between states as well as within them. Indeed, in the minds of the citizens of our

countries, the issues of growth, equity and sustainability are at the top of the agenda.

Moreover, the paths chosen by each of our countries will not be chosen in isolation, but rather through an assessment of strategies of other countries in the region. Indeed, the domestic debates in most countries in our region are heavily influenced by competing assessments of the intentions of key actors. In the United States that means primarily China, and vice versa. South Korea has North Korea to consider, but also Japan, China and the United States. This is true on the economical as well as the political front, as our relations, as Zhu Min has shown so eloquently have become increasingly intertwined and interdependent. Perhaps the most striking feature of the region today, and in recent years, has been the relative tranquility experienced. In an area that has been wracked by some of the bloodiest conflicts of the 20th century, the current environment, though clearly facing important risks, is nevertheless run with relative stability. This stability has been a critical enabler of the remarkable economic growth of the past thirty years. Maintaining this stability is essential if our economic growth is to be extended into the future. So in thinking about the choices facing the leaders coming into power this year it is important that we reflect a little on why we have enjoyed such a largely stable environment in the region during this period and what leaders in this region – especially the United States and China – must do to continue to promote this growth and stability.

Now, when we reflect on the sources of conflict and insecurity over the past century, familiar themes come to mind. Conflicts associated with decolonization and self-determination, with national identity and territorial claims, access to natural resources and of course ideological competition. Although some of these factors have faded in importance, many remain today in the shadows as potential sources of not only near-

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term stability, not to mention outright conflict. Take territory, for example. Some of the most dangerous situations we face in the region come from unresolved national aspirations and associated territorial claims – from the unresolved territorial divisions of Korea to the Northern Territories in Japan to conflicting claims in the East and South China seas. Virtually every bilateral relationship in the region is shadowed by territorial disputes. In many cases, these disagreements are closely intertwined with that other perennial source of conflict – access to natural resources with tremendous potential access to wealth in and around the sea.

But these are not the only causes of conflict and friction. There are also frictions emerging from issues ranging from trade and economic policy, to differences over political and economic systems. So, in the face of these persistent underlying sources of conflict it is again important to reflect on the counter-intuitive fact that the region still remains peaceful. A short but simplistic answer that is often given is that at least for the moment all major countries have a sufficient stake in maintaining the status-quo, and that sufficient uncertainties about changing the status quo induce a cautiousness in leaders that supports stability. Chinese leaders in particular frequently stress the fundamental importance of a peaceful international environment to help China pursue its long term developmental strategy. But this situation did not come about by accident, and what is perhaps more important is that there is no invisible hand to ensure that it will be maintained, which is why policy remains so important.

The powerful appeal of the status quo is most evident in the two places that post the greatest threat to instability in the region – the Taiwan straits and the Korean peninsula. In both cases, on one level, the current arrangements are deemed unsatisfactory in the eyes of most of the protagonists. Here in China, the commitment to achieve reunification with Taiwan remains a powerful political force, while over in Taiwan even the ruling Guomindang remains anxious over

existing vulnerabilities to China's economic, political and military might. Yet the cautious route followed by politicians in the mainland, and the relatively clear-cut victory of Ma Yingjiu in the recent election shows that uncertainty about upsetting the balance of the status quo remains dominant. Similarly, on the Korean peninsula there are few advocates on either side for retaining the current division, yet little side that either side is prepared to undertake a gamble on a game changing strategy. The same pattern can be seen both in the East China and South China seas where despite occasional skirmishes and intense maneuvering to capture headlines, in the face of any serious risks of escalation all parties have demonstrated an inclination to seek a peaceful resolution of differences.

So what contributes to this stability? I think the answer is twofold. First, we have the ever deepening economic integration so vividly described in the previous [Zhu Min's] talk. Second, we have the commitment of the leaders of the United States and China to forge a constructive and cooperative relationship despite important differences between us and the inherent challenges posed by the dynamic that inevitably exists between a rising and an established power. I want to emphasize this latter factor because I believe that history demonstrates that while economic integration can be conducive to pacific relationships, it is not enough by itself to secure it. I don't want to spend a lot of time on this issue [economic integration] today – we all know that information technology and modern transportation have not only fostered trade but also intensified the creation of global production networks that increase nations' exposure to and dependence on the well-being of each-other. Linkages are being fostered by an expanding lattice of bilateral and multilateral trade agreements that give even greater incentives to sustain political relations in support of trade.

Virtually everybody seems to understand that prosperity is best sustained by positive political relations, which temper even economic conflicts

over issues like currency and trade practices. The stability that comes from economic integration is also bolstered by political practices. Amongst the region's democracies, there is a clear understanding that political parties' fortunes depend to a very large degree on their ability to provide prosperity for their citizens, and that is another constraint on risk taking. Even in countries whose leaders are not directly chosen by elections, including but not limited to China, the government's ability to deliver prosperity and a better life is critical to its ability to sustain public support. Yet as I suggested, this is no cause for complacency. As the early years of the 20th century in Europe showed so vividly and tragically, economic integration alone is not necessarily sufficient to sustain peace and prosperity. Misperceptions and miscalculations, particularly at a time of shifting power dynamics, have and will continue to threaten stability, even in this region, where the stakes for sustaining peace are so great. This cautionary tale [World War I, World War II] should be on the mind of all our leaders.

To avoid the dangers of instability and conflict will involve many different actors in this diverse region, but I think it will surprise no one here if I say that more than any single factor, how the United States and China manage our relations will have profound relations not for our two countries but indeed for the region and the world as a whole. It's no accident that President Obama has called the United-States – China relationship the “most consequential bilateral relationship in the world” The central importance of managing U.S – China relations is inherent in the history of the region in the years following the end of World War II and the 1949 establishment of the PRC. During the period when the U.S and China were most at odds, the region was wracked with war and conflict. With rapprochement and the normalization of relations in the 1970's, the region became more stable, although important conflicts still persisted, widespread conflict has been avoided.

The management of this relationship has been based on

a more or less explicit set of understandings between the United States and China ever since normalization of relations began in the 1970's. Despite our differences in important areas, ranging from trade and economic policy to human rights and democratic governance, American leaders of both parties have welcomed in word and deed the emergence of a strong and prosperous China as a positive contribution to reaching global growth and prosperity. And China's leaders have accepted that United States has and will continue to play a central role in East Asia, and that our presence will play a central role in ensuring peace and stability. These roles have been reaffirmed recently by Presidents Obama and Hu, both during President Obama's visit here to China and President Hu's state visit to the United States. Both sides have worked hard to sustain and expand areas of common interest and common effort, on key regional and global issues, ranging from climate change and energy security to counter terrorism, anti-piracy and global public health.

But in recent years some of both sides have begun to challenge some of the assumptions underlying this cooperative relationship, drawing on what they claim to be lessons of history to claim that our two nations are destined to be at best rivals, and perhaps even adversaries. On the U.S. side, proponents of this view assert that China's rise is inherently a threat to the United States. State to state relations are seen as a zero-sum game, in which one country's rise is necessarily at the expense of the other. On the Chinese side, holders of this perspective view America's presence, particularly military presence as inherently antithetical to China's security, and our security with other countries in the region a thinly disguised effort to balance and contain China. From these claims flow what their advocates call clear policy imperatives, for the U.S, to hold down and resist China's rise, and for China to seek to reduce and ultimately to eliminate the U.S. presence in the region.

Will it surprise you if I tell you that I believe these diagnoses are flawed? And the policy choices that

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they are alleged to flow from are not only wrong, but self-fulfilling in a dangerous way? If China's leaders perceive that the U.S. aims at containing and weakening China, then they will necessarily look at policies that seek to thwart that objective, including looking to eliminate U.S. presence in the region, and in so doing to invalidate the very thesis that skeptics of a positive U.S.-China relations claim is the justification for their actions. Similarly, if U.S. leaders perceive that China seeks to undermine the U.S.'s active engagement in the region, and to intimidate its friends, they will seek stronger relations with our traditional allies to counter that effort. Even those in both countries who do not believe that conflict is inevitable are tempted to adopt precautionary strategies against bad outcomes, so called 'hedging'. In doing so they risk sowing mutual distrust, which can lead to a spiral of action and counteraction that also tends to validate our worst-case fears.

As I have said, I don't believe there is an iron-law that says the U.S and China are destined to become adversaries, but at the same time I also do not believe that there is a benign invisible hand that will steer us away from these rocky shoals. Quite the contrary, I believe that in the absence of any farsighted and courageous leadership, the unhappy outcome is far more likely than the positive one.

To avoid this will take more than pious words and good intentions. Americans note China's rhetorical commitment to peaceful development whilst questioning whether its actions square with its words. Similarly, in China, many challenge whether our policies are consistent with an oft-repeated support for a strong and prosperous China. It's for this reason that our two Presidents have spoken for the need to build 'strategic mutual trust' – and the first step towards building that trust is dialogue.

Over the past three and a half years we have witnessed a broadening and deepening of dialogue between our two countries on a broad range of issues, most vividly

embodied in the extraordinary three rounds of strategic and economic dialogue. Nowhere is there a greater need for dialogue than in the field of national security. That's why I am so encouraged by progress in military to military dialogue and the establishment of a so-called strategic security dialogue between our two countries, which I was encouraged to co-chair in its first meeting.

Dialogue is just the start, and can lead to disillusionment if not backed by action. As some of you know, I've suggested that these 'actions' must come in the form of what I've called 'strategic reassurance'. Concrete steps that each side must take to demonstrate that its intentions are consistent with its rhetorical commitments. Let me take just a minute to explain what I mean: on the economic front, the decision of the United States to support and champion China's admission into the W.T.O. is an example of strategic reassurance. It takes step by step moves to demonstrate the United States commitment to Chinese prosperity. On the Chinese side, the actions taken by Chinese leaders during the Asian Economic Crisis of 1998 / 9 and more recent global crises of 2008 / 9 also show tangible commitments to global wellbeing. Today, Americans look to China to undertake the rebalancing of its economy and loosening of restraints on its currency as a tangible reassurance that China does not seek to sustain its growth at the expense of its partners. China in turn can reasonably expect the United States to manage our fiscal problems in a way that does not harm China's economic interest and investment in our securities.

On the security front, we have important work to do to begin to build strategic mutual trust through strategic reassurance. For example, we can both take steps to make sure that our legitimate use of space does not pose a dangerous risk to the space assets of the other. We can work together to build norms and practices that build confidence that our activities in cyberspace are not designed to harm or undermine the other's legitimate security concerns or economic interests.

We can build on innovative past practices to eliminate the dangers from incidents at sea. Now, undertaking this process will not be easy. Trust is hard to build, and is not built in a day. We have real differences on important issues. For example, we in the United States believe that our previous support for Taiwan's defense and military needs promotes stability and cross-straits dialogue. China, on the other hand, and I personally note this from repeated interactions with your leaders, "vehemently rejects" this analysis. They believe that the contrary of this leads to peace and stability in the region. Similarly, we view, as President Obama has often said, our support for enhanced human rights in China is profoundly in the interest of China's own prosperity and stability. Many in China view this as an illegitimate interference in China's affairs and a thinly disguised effort to weaken China.

We in turn question many of China's military actions and military modernization as seen in the South China sea, which we see as inconsistent for peaceful resolution of disputes – while China insists that this is merely the legitimate and natural assertion of an attempt to earn its territorial claims. We often talk of 'managing' the differences between our two countries, but we need to do more. We need to address these forthrightly, and find ways to make sure that our honest differences, even on important issues, are not misconstrued as matters of hostile intent. We also need to recognize that in managing a bilateral relationship we also need to count the interests and concerns of others in the region. The fear of a U.S. – China condominium in the region may sound fanciful to us, but it is real in many parts of the region. Equally real is the fear of getting caught in the crossfire of a U.S. – China conflict, or being asked to choose sides, when most if not all countries in a region desire good relations with both the United States and China. Our ability to manage this bilateral relationship will also be enhanced in our common commitment to build multilateral economic, political and security structures. These multilateral approaches provide a framework to address the broad range of interests

of both large and small states, and to find solutions to avoid the 'who won?' character of many bilateral engagements.

Hence, we see today, from the East Asia summit in APEC to the regional efforts like the ASEAN regional forum, the ASEAN defense ministers, and more informal mechanisms, including trilateral and other dialogues, there is a groping effort to establish a framework that will allow the positive development of U.S. – China relations to flourish even more.

I hope that in my observations today I have succeeded in walking the fine line between an optimistic belief in the possibility of long-term peace and prosperity in the Asia-Pacific with the realistic warning of the risks that we may not succeed in attaining what is clearly in our common interest. But I do believe that meetings like the Shanghai Forum and the dialogue that you engender will help tilt the odds towards a more optimistic outcome. And so I thank you for the opportunity to talk with you today.

(Edited from a shorthand record)

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Long Yongtu

Member of the Council of Advisors, Boao Forum for Asia
Former Vice Minister and Chief Representative
for Trade Negotiations, Ministry of Foreign Trade
and Economic Cooperation

It's my great pleasure to join you at Shanghai Forum hosted by Fudan University. As far as I can remember, six or seven years ago, South Korea SK Group decided to sponsor Beijing University and Fudan University to organize a forum respectively. As a result, we have Beijing Forum in Beijing, which focuses on political issues, and Shanghai Forum in Shanghai, which focuses on economic issues. I once expressed my doubt to the leaders of Fudan University whether it is feasible for a university to host what is called Shanghai Forum. How can a university call its forum Shanghai Forum? It turns out that Fudan University has done a magnificent job. Today, Han Zheng, mayor of Shanghai, came here in person, which justifies your calling the forum Shanghai Forum. Above all, I should congratulate Fudan University on holding such a good international forum.

My topic today is about economic restructuring. The theme of this forum is "Economic Globalization and the Choice of Asia: Strategies for 2011-2020". In addition to economic strategy,

we can also discuss energy strategy, population strategy, sustainable development strategy for the next ten years. But I think economic restructuring is at the very core of Asia's strategies for the next decade. It is also at the core of China's strategy for the next decade. In the past decade, like many emerging economies in Asia, China has achieved significant economic process. Meanwhile it is faced with formidable challenges, that is, how to realize economic restructuring. The term economic restructuring is rich in meaning and refers to a variety of changes. These changes can be summarized into the following aspects: economic growth becomes more reliant on improved quality than increased quantity; economic structure is adjusted in such a way that instead of being predominated by manufacturing industry it enables manufacturing industry, services and modern agriculture to achieve mutual development; economic growth, which used to be mainly derived from investment and export, is increasingly driven by investment, export and domestic demand, with domestic demand as the leading force. Besides,

mutual development of large, medium, and small-sized enterprises in diverse sectors of economy rather than development of large state-owned enterprises alone is to be encouraged. Thus China's economic restructuring does involve many issues. However, the core change, in my view, is the change of target from economic growth to people's development, which constitutes the central concern of China's economic restructuring.

In this light, I come up with two standards by which we can decide whether China's economic restructuring is successful or not. One is whether it enables people to live a happier and more vigorous life. The other is whether it makes society more stable and more harmonious. In essence, the success of China's economic restructuring depends on improvement of people's livelihood and maintenance of social stability and harmony. Once we realize these two aims, it means we have successfully completed economic restructuring. In other words, the overall objective is shifted from economic growth to human development.

The reason why I come to this conclusion can be dated back to 2009 when the economy of China exceeded that of Japan for the first time and became the second largest economy in the world. Many economists, government officials and common people in China were all discussing when China would exceed U.S. in economic aggregate and become the largest economy. On the whole, it's merely a matter of time for China to exceed U.S. and become the world's top economy. While we were discussing when China will take over U.S., I read an article in an Australian newspaper. It directed three questions at China: when will you make elites in most countries in the world willing to send their children to study in China rather than in U.S. and Europe; when will you make most people in the world,

especially young people, more inclined to see Chinese films, listen to Chinese music and read Chinese books; when will you make consumers in the world choose to use more products of Chinese brand rather than American or European brand? These three questions put a damper on our heated discussion as to whether we can surpass U.S. in economic output and reduces the discussion to sheer meaninglessness. We admit that these three questions did point out Achilles' heel in China's economic development, the question as to when China's soft power will correspond to its hard power and China establishes itself as an influential economy in the world.

To solve this question, I think it is crucial to strengthen people's development in China and turns the goal of Chinese economy from economic growth to human development. To make such a transition, heated discussions are held about the way to improve China's soft power of culture. I suggest that we make efforts in the following three aspects.

First of all, we'll see whether there can be further development in cultural entities, or carriers of culture. China has recently paid much attention to cultural industries, or rather, material forms of Chinese culture. Our concern is whether we can produce better films, music and books that are well received in other parts of the world, and whether our education can earn admiration and respect from elites worldwide so that more and more of them will send their children to study in China. To enhance soft power of Chinese culture, China must devote major efforts to development of cultural industries and educational industries. These are what I call cultural entities, or carriers of culture.

Secondly, we'll look at system culture in China's

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economic development, which is mainly concerned with establishment and improvement of market economy in China. We have been undertaking economic restructuring for many years, aiming at a more market-driven economy. Now we are more and more aware that there is still a long way to go before we set up the system culture for a market-driven economy. China falls a long way short of having market players as entities of resources allocation. The state is gaining more control over allocation of resources like land and money among other things. The state rather than the market still dominates allocation of these resources. Besides, SOEs still monopolize many areas, thus greatly restricting economic development of enterprises of other forms of ownership. Moreover, the influence of government's administrative approvals shows the tendency to increase rather than decreasing over the past few years. This reminds me that the weakest point in our ten-year negotiation about our entry to WTO is how to reduce the power of government in economic operation. We have made some achievements, but these achievements are evaporating. During the transitional process of China's economic development mode, it is an enormously big challenge to establish Chinese socialist economic system. To place culture at the center of our economic restructuring, a historic task is to build up a system culture that is suited for socialist market economy. It's certain that socialist market economy within the legal system must be based on credit system, and we are more concerned with social problems in relation to credit system. Therefore, there is much to be done before we establish the culture of system.

Thirdly, we'll come to the biggest challenge regarding establishment of values compatible with economic restructuring. I can't agree more with the values issue mentioned by Mr. Tae-Won Chey, which in his opinion is at the very core of economic restructuring.

But for a number of cultivated people in support of China's economic development, China's economy would not be able to gain sustainable progress. In this sense, one of the most important objectives of our economic restructuring is to produce a number of highly cultured people. More and more talented people do graduate from colleges like Fudan University. But they are far from being highly cultured people. A cultured person has something more than a college diploma such as a master's or doctor's degree. A cultured person must possess core values and should make efforts in the following three areas:

Firstly one should learn the proper way to treat oneself. A cultured person must have a strong sense of self-confidence, self-respect, self-discipline and self-improvement. Similarly, to a nationality or a country, the people must have a strong sense of self-confidence, self-respect, self-discipline and self-improvement.

Secondly one should learn the proper way to treat other people. To be specific, one should treat other people with modesty, tolerance and love. By the same token, a nationality or a country should adopt a modest, tolerant, friendly and generous attitude towards surrounding nationalities or countries and all the nationalities or countries in the world.

Thirdly, one should learn the proper way to treat the surrounding environment. We'll see whether one undertakes economic and social work in accordance with objective laws and market value. We'll also see whether one complies with the nature rather than confronting the nature and whether one cares about the global environment the same way one cares about one's natural environment.

What I want to emphasize is that the most essential part of developing soft power of culture is to cultivate

a number of highly cultured people. Only with these people can the values of Chinese nation earn others' respect. If we Chinese nation has a strong sense of self-respect, self-confidence and self-improvement, adopts a friendly, modest, tolerant and generous attitude towards other nations, and takes care to protect the whole environment, China's soft power of culture will be greatly improved. To establish the legal system for Chinese socialist market economy, we must work vigorously to develop our cultural industries and educational industries. That's for sure. But the crux of the problem is to produce a number of people with respectable values. This is what I think Shanghai Forum should focus. That's why Mr. Tae-Won Chey and other sensible people from Korea expect a university to host this forum. The fundamental concern of a university is human development. To me, if Shanghai Forum adheres to its core belief in people's value, people's cultivation and people's development, Shanghai Forum can set itself apart from other forums and demonstrate its unique power and value in its competition and cooperation with the world's best forums like the World Economic Forum Davos and Boao Forum for Asia. That's why I expect the most prestigious university in Shanghai to host this forum and establish its own brand. Its focus should be on people's development, which can't do without economic and social development and the overall economic relationship, including development in international political, economic and diplomatic relationships. It is in this extensive context that we discuss and explore the issue of people's development. Once the issue of people's development is smoothed out, the issue of international relationships is half solved. If countries and people in every country achieve mutual respect, mutual tolerance, mutual understanding, and show generosity and affection to each other, international relationships, even the most difficult ones can be properly settled. If such a

value is absent, and all the international relationships are built on the basis of sheer interest or on the basis of geopolitical or geo-economic factors, a truly sustainable relationship can hardly be established. As far as I am concerned, I cherish great expectations for Shanghai Forum. I hope Shanghai Forum will live up to what people expect of a forum hosted by one of the world's most famous university and distinguish itself in thousands of forums of its kind around the globe, and I believe by giving full play to its fundamental brand concept, Shanghai Forum will become better and better.

In conclusion, I wish Shanghai Forum every success. Thank you.

(Edited from a shorthand record)

Opening Ceremony Keynote Speeches



Carlo Carraro

Vice-Chair, Working Group III, IPCC
President, University of Venice

Good morning. First of all, let me thank Professor Yang for this invitation to speak at the Shanghai Forum. Let me thank everybody for their organization of the energy sessions and in particular this part of the plenary sessions on climate change. Let me thank all colleagues who are participating at the forum this morning and tomorrow. The topic we are talking about is climate change. It's suitable that we deal with this horizontal issue, which builds relations on a range of issues, some of which have been discussed before by various speakers, such as economic development, and of course there is the question of the sustainability of this development and the global scale.

I'm going to talk about this issue by focussing on the policy we mentioned – the science one. I believe that this forum encompasses a lot on policy and economics. I also believe that this forum will help deliver new ideas and proposals to addressing the climate change problem. Let me start from the present situation. The present situation is not satisfactory. There have been international climate forums such as the meeting at Washington, where there is always this idea that countries are committed to achieving

certain targets to control emissions in a way that global temperature will not be increased by more than two degrees at the end of the century. This target, this agreement has changed many times, even at the so-called Durban platform, again reproduces the same idea that the two degree target is the one that will be achieved by the end of the century.

I really doubt this is feasible. The reason can be seen in the slide here. This is the 2007 IPCC report, and results from a new report to be released in 2013 show conclusions that are very similar. The rate of 450 parts per million (greenhouse gases), with no indications that this will change in the following years, means that we probably get a temperature raise of two degrees – in fact we will probably get a rise greater than that. That doesn't mean that our policy is unimportant. A policy is required, but of course it must prevent atmospheric concentrations from growing even larger, so that it might threaten the three or even four degrees target. Probably the target of two degrees is gone, and we are heading towards a target of two and a half or three degrees.

The reasons – the slide provides some more information on what I am saying – the present levels of greenhouse gas concentrations are too high for us to keep within the two degree target with one exception, that being us being able to control stock emissions, not just the flow. All our policies today in climate policy focus on the flow of emissions in terms of how to control the amount of emissions every year produced by countries, whereas if technology were available to control stock emissions we could allow ourselves to overshoot targets and increase emissions beyond the two degree target or its consistent 450 ppm level, reducing these emissions later, towards the end of the century, when technology is available to control stock emissions, not just the flow.

But I will discuss this issue later. This is the situation. With this situation in mind let us discuss the three following policies. The mitigation policy, which the usual policy, i.e. that of controlling the flow of emissions produced by countries. The second one I call enhanced mitigation, the possibility of controlling the stock of emissions, accumulated emissions over the past two hundred years. Finally, of course, there is adaptation. Adaptation to climate change remains a possibility, really in particular because in any case a temperature change of less than two degrees is really impossible. Some climate change will occur anyway. We will have to adapt.

Let's talk about mitigation. How effective has mitigation policy been in the past? How effective have countries been in reducing greenhouse gas emissions? Not really very effective. There remains no international agreement. The last one, the Durban platform promised to agree in 2015 about something they would do in 2020, but these kinds of promises are obviously not really effective in reducing emissions. In order to control greenhouse gas emission, we need to quite drastically alter the energy mix in the short term. Again this is not likely, for reasons of cost, economics, and also technology. Some crucial technology,

in particular nuclear and carbon capture sequestration technologies are probably not available as we would desire for some social and political reasons, as well as military. We need technology, and we know some technologies, but some of them cannot be fully implemented.

So, in this situation, in which we see emissions will increase by a considerable amount, with world population increasing and economic development increasing, we are not able to deliver behaviour, technologies and policies to control the flow of greenhouse gas emissions. Let me show you a diagram. The yellow, orange and red areas identify the path of emissions in the coming years for China, India and other developing countries, whereas the two green lines identify two possible emission paths consistent with an increase in temperature of between 2 and 2.5 degrees. As you see, the white area represents the amount of emissions which are left over to OECD countries. Of course, this is just a way of representing the situation, but in any rate as you can see, the green lines cross the yellow orange and red areas between 2035 and 2040, which implies that by that time emissions in OECD countries should reach zero.

Again, it is again very unlikely that economies in OECD countries will be able to change that much.

This is a way of showing that this reaching this target is quite unlikely. This does not mean that a policy is not necessary. Without any kind of policy, emissions would follow the black line shown in the diagram, with an even greater increase in temperature. Something is certainly in need of being done. Here we can see the quantity of investments needed to keep world temperature under control and within the two degree target. You can see that the investments are really huge. In order to change the energy mix in ways that are necessary to reach our targets, really huge investment is necessary. Even without the current economic crisis, the figures are not the kind we are likely to see turning into investments in the coming decades.

Opening Ceremony Keynote Speeches

More information can be useful in seeking to understand what is happening. If we compute the economic incentives necessary to drive these kinds of investments into renewable energy technologies, we can see that the implicit tax, the rise of permits and taxes in a global economy and emission permits, to be consistent with a two degree target, increases over time too much to be credible. If it were to be the case, the size of our emissions permit market would be even larger than the oil market. The situation is quite difficult to believe.

I am giving you all this information to say that the two degree target is not what we should expect, that we need a different strategy, either more effective or more realistic, in order to achieve something that works with our economic systems. Of course, I do not want to deliver a negative message. A lot has been done in terms of controlling greenhouse emissions and at the city level, with city and agricultural management, investment and research being quite important to controlling climate change. There have been in the past great improvements in energy efficiency. A lot has been done, but all this remains not enough if we focus only on the flow of emissions.

Let us talk about the second possible strategy, that of reducing the stock of emissions. Technologies in this field are really at the beginning – we need more research and greater efforts still – but certainly some attempts are promising, though they cannot deliver the large scale of emission reductions in terms of stock that we will need. The three options we know are as follows – afforestation, use of bio-energy and the use of biomass. These are the three main options - let me discuss what they would imply. The diagram shows the amount of bio-energy that would be necessary if we were to achieve our 2 degree target. I mentioned the 450 ppm scenario. What's the problem? In order to produce this kind of bio-energy, we need a lot of land. You can see here that for every thousand hectares arable land available today we would need to add another one thousand hectares of land in order to enable us to remove greenhouse gas emissions in a fashion that is consistent with our present targets.

We cannot of course almost double the amount of arable land just to achieve our target. Of course there are other elements in this problem – we can increase efficiency and increase our innovations that deliver these kinds of reductions. Or we can provide price incentives to help us. But all of this seems not likely.

What is left? Adaptation. Certainly some of these things are unavoidable and countries will have no choice but to adapt to climate change. What are the features of this policy? Much less in terms of financial incentives. Mitigation policies are certainly affected less by financial incentives, and in many ways it is less costly because one can implement local change without large-scale global investments. Is it effective? No, if applied as a unilateral policy or as one that is implemented without mitigation. This diagram shows the residual emissions left even after adaptation alone, mitigation alone, or both. The green line shows the optimal policy, with both policies implemented – mitigation plus adaptation is certainly more efficient in reducing the total damages affecting socio-economic systems at the end of the century.

What are the conclusions? In terms of costs and benefits, I think that all analyses and studies conclude that the costs of reducing greenhouse gas emissions are certainly smaller than the benefits delivered by controlling this emission. These benefits are of different kinds – there are not only the benefits of controlling temperature, there are many other side effects that can be controlled by reducing emissions. I think there is consensus on the cost as exceeding the benefits, in particular if one counts the risk associated with climate change – the long term risks and the possibility of reaching tipping points.

This is a preliminary conclusion: first, we need a policy. The benefits of this policy will be larger than the cost. Current policy is costing quite a lot in terms of investments, here we can see a slide showing the costs of mitigating and reducing emissions – the flow of emissions – in order to achieve the '2 degree target'. You can see here the estimate at the total of \$430 billion. This is an estimate of the cost of adapting

to climate change. It is much less costly, but there is the question of timing – adaptation policies are paid at the end of the century, whereas mitigating policies are paid at one time. There is quite a difference, although the amount of materials involved in adaptation is large. The resources are also large that we could devote to innovation the controlling of greenhouse gases. Again, these are not impossible numbers. In the case of innovation for example, the share of research in the energy sector today is 0.02% of global GDP. In the early 80s, it was 0.08% of global GDP. If we go back the eighties and use the same proportion of resources devoted to innovation, then that would be enough to be able to reduce emissions in our economic systems.

The total amount is \$650 billion. This estimate gives you a flavour of the kind of numbers that are necessary in order to implement the numbers I am describing. It is not impossible – if you consider the figures we spent in research years, 2008 – 12, during the financial crisis, I think we can see that the effort involved in climate change is not an impossible effort. Though it remains elusive.

In terms of policies, what are our conclusions? I believe that in terms of policies it is not feasible to impose today a demanding policy that can reduce emissions in the short term. In my view, progressive policies present a better strategy, in which countries focus on better policies, in particular policies to reduce the stock of emissions, in which countries progressively and cooperatively work to reduce greenhouse gas emissions, in order to achieve something close to the two degree target. The two degree target should not be a mantra, it should be a guide and drive for the behaviour which is going to be persistent through time. This is something that Europe is doing, being the only region in the world where a consistent policy has been implemented for about ten years, whereas other countries and regions either have not done this or are just starting with this kind of policy. As you can see, what Europe has done is something quite simple for an economist. Firstly they priced the cost of greenhouse gas emissions by pricing carbon and correcting the negative externalities produced by greenhouse gas emissions. This

is not all – they have also provided important incentives to the supply of renewables and important incentives to increase energy efficiency. Basic tools, basic strategies that probably should be implemented in all countries. There is the start of policies in the East, with both China and Korea agreeing policies and investments in order to reduce economic development. Innovation, as I have said, is another important strategy, and it is supported by the European Union.

What are the future challenges? The challenges are of course about energy. We need a better energy policy. The recent meeting in Washington focussed quite a lot on this issue. It is important, even though it does not affect climate change. We recently concluded that the amount of emissions that would be reduced across the globe if those two billion people, almost three billion or who do not have access to energy, or whose access is very poor, were able to have access to energy, how much emissions would increase. The answer is not more than 10%. Again, getting a renewable energy policy is not really an issue, it is the benefits of this policy that are important. So – cleaner energy, more investment into renewables, a more equitable distribution of energy. All this requires a consensus and a cooperative effort. This will take some years to come. The research we are doing in countries and our cooperative efforts and our discussions like those coming from this Forum will help us and be very important in forging our policies for climate change.

(Edited from a shorthand record)

Opening Ceremony Keynote Speeches



Yuan Zhigang

Dean, School of Economics, Fudan University

It's my great honor to give you a report on Chinese economy. My topic is "the Short-run Fluctuations and Long-run Growth of Chinese Economy". Personally, I think 2012 is a very unusual year for Chinese economy. Its first quarter in particular suffers from many strong external and internal shocks, leading to slowdown in economic growth rate. Since the theme of our forum today is "Strategies for 2011-2020", I will approach the issue from the long-run perspective. In the long run, China is faced with challenges concerning factors like changes in population structure, capital accumulation, energy and environmental constraints, and TFP growth. The year 2012, considered both in the long run and short run, is a very difficult year. Today I will talk about three aspects of Chinese economy, challenges in 2012, trends in the future and major reforms needed.

To begin with, it's necessary to introduce a general macroeconomic model, a general equilibrium model. We will look at the economy in both long run and short run against the background of globalization. In the long run, as I've mentioned, labor supply is

of vital importance, which undergoes a significant change in our country. Capital accumulation, as I will deal with later, is also very important. TFP has much to do with R&D activities, and technological advancement becomes important in recent years in China. A critical part in TFP growth is institutional reforms. As Mr. Long Yongtu mentioned, institutional reforms are essential to our entry to WTO. Lastly, we will consider energy constraint and environmental cost. In the short run, we receive many shocks, such as decline in external demand, abrupt changes in domestic investment, and excessively frequent changes in macroeconomic regulation and control policy, all of which exert an impact upon Chinese economy to some extent. That's why the year 2012 plays a crucial role in both short run and long run.



I would like to proceed in the following sequence. Firstly we'll look at the impact of global economy, which greatly influences Chinese economy. Then we'll look at changes in investment. Next, we'll look at changes in consumption. Finally, we'll look at Chinese finance, that is, what changes have been brought by liquidity interjection.

To be frank, the global financial crisis of 2008 is still affecting the Chinese economy. As Mr. Zhu Min previously mentioned, due to the long-term global economic imbalances in manufacturing, trade, and finance sectors, financial derivatives are too many and financial leverage is too long. Now we are in the process of deleveraging. In comparison, U.S., an important member of the international monetary system, enjoys a very low borrowing cost, owing to factors like development in science and technology, reindustrialization policy and other policies that stimulate domestic market. There are problems nevertheless. In Europe, Euro, as the uniform

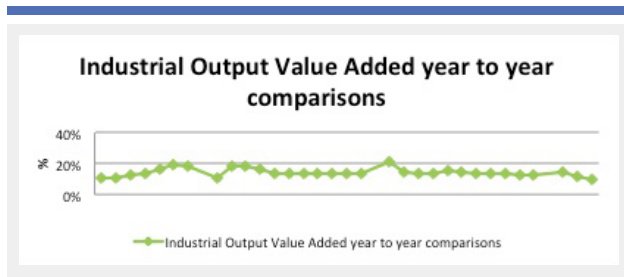
currency, makes the economic recovery extremely difficult and deleveraging particularly hard in the few South European countries, which results in a high borrowing cost. Especially these days, with parliamentary elections in Greece and change of president in France, Europe is moving towards an indefinite direction in the future. In the long run, I think there are three trends for the development of Euro. The first possibility is that Europe develops into a federal Europe and its monetary policy becomes more uniform. France's new president proposes the issue of Euro bonds so that Euro achieves a similar status like U.S. dollar and the borrowing cost is reduced. But it is not that easy for the first possibility

to materialize. The second trend is dangerous, in which Greece withdraws from the Euro. Thirdly, it's also possible for the Euro to collapse in the long run. If the current situation continues, economic decline in Europe will persist for a few more years.

As we know, along with China's economic growth, China's export to emerging economies used to grow substantially. Recently, however, many problems show up in the emerging markets. Besides, there are negative prospects for economic growth in the future in the global capital market and there has been tremendous decline in bulk commodity prices including gold price. All the above-mentioned factors affect the global economy and consequently have adverse effects upon Chinese economy. Above all, the impact is enormous. Manufacturing industry constitutes a significant part of Chinese economy and China is called "World's Factory". Seen from the statistics in 2012, China's industry merely has a growth rate in single digits, which is rare in history.

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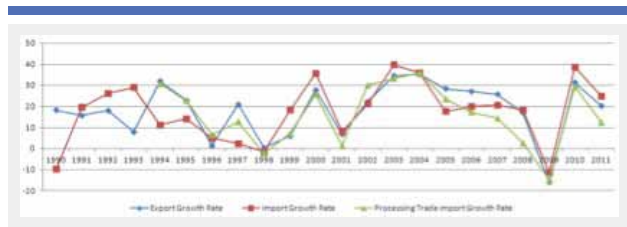
For instance, April has a 9.3% increase, whereas its annual growth stands at about 14% for many years. Chinese economy stays healthy, but its decline is very obvious in recent days.



Source: NBSC

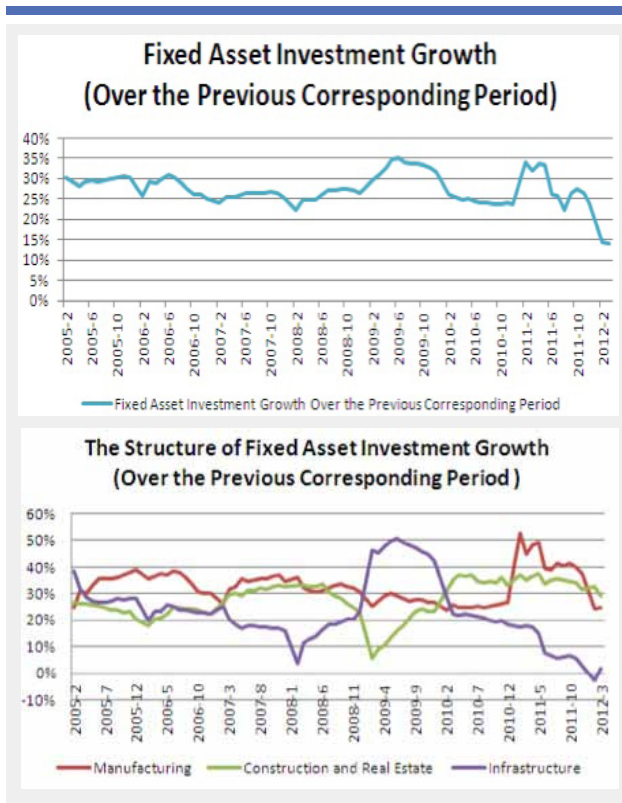
Why does all this happen? We'll look at some of the short-term factors. External demand has been the external factor that promotes economic growth in China. We can see three curves, one for export growth rate, another one for import growth rate and the third one for intermediate product import growth rate. Intermediate product import growth rate drops drastically, which means export growth rate will further decrease in the future, for many of intermediate products that we import are assembled for export. As economic growth slows down, import growth rate also declines. The decline, which is a steep one, has begun since the financial crisis in 2008. On the one hand, the decline is attributable to slowdown in global economic growth. On the other hand, when exploring domestic factors, we find that export growth declines more seriously in Eastern China. Import increases greatly in Middle and Western China. The growth rate in Chongqing has exceeded 100%, which is in fact a huge change. What does the change mean? These days we attended master and doctor oral defense. Many students' studies show that the centralization of industry is decreasing and the specialization of industry is declining, which means the efficiency of China's export enterprises is reduced. I attended a meeting in Zhejiang. Zhejiang ranked the lowest in Eastern China. The government blamed themselves for not performing well. I didn't think that was the case. I told them that

Zhejiang didn't develop well because non-governmental economy was weak in China. If non-governmental economy prospers, Zhejiang was sure to develop well. It didn't necessarily have anything to do with government performance.



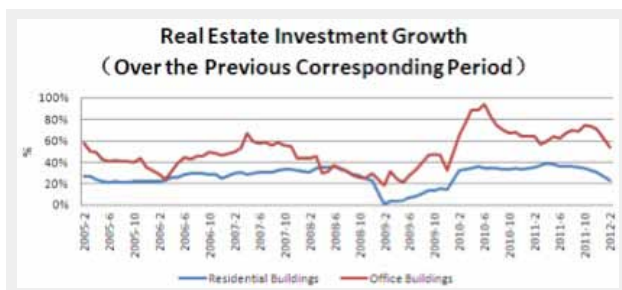
Source: General Administration of Customs

Next we'll look at the very important factor that used to sustain economic growth in China. I will give particular attention to fixed asset investment, whose growth rate has dropped to around 20%. Look at the three types of investment on the right hand. One line represents investment in manufacturing industry, which has a steady growth. Another line stands for investment in architecture and infrastructure. The third line represents investment in infrastructure. You can look at the third, purple line. There is a sudden rise for the Four-Trillion-Yuan investment, which is unsustainable though, and it causes many problems. Admittedly this leads to great growth in investment in manufacturing industry. But you can see an obvious decline in investment in infrastructure. Like the purple line, the red line for manufacturing industry also shows the tendency to decline. The green line stands for investment in architecture. Thanks to our house purchase restriction policy, it looks fine. But there is not much investment from private real estate investors. They neither purchase land nor make investment. The high investment growth rate we have now is totally attributed to low income housing. If low income housing shrinks and investment in infrastructure decreases, it's certain that investment in manufacturing industry will continue to decline. Overall, many think economic growth rate reached its lowest point in the first quarter or second quarter of 2012. But I don't think so. It may reach its lowest point in the third quarter or fourth quarter of 2012.



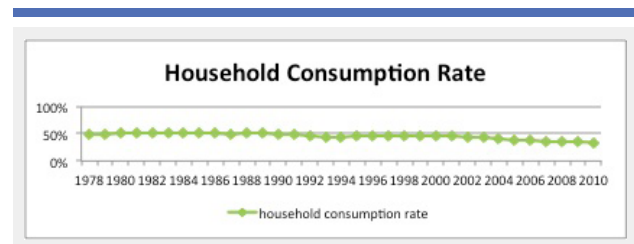
Source: GTA Data

Here we can see the decline of investment growth in both office buildings and residential buildings. As we all know, it is due to property purchase restriction policy. For us macroeconomic researchers, we'll wait and see this policy takes effect in five years. It is really difficult for us to study its periodicity, for its impact is massive. Unlike other policies like tax policy, credit policy, financial policy or interest-rate policy, it is a hard policy and its outcome is unpredictable.



Source: GTA Data

Now we all expect China's consumption to grow. Mr. Long has also mentioned domestic demand in relation to economic restructuring, which is very important. It's likely that China's consumption will increase after 2015. But it's impossible in 2012. As you know, economy growth slows down and employment declines. Considering the fact that consumption accounts for only 34% of the total economic growth and labor income only 40% of the total GDP, and the huge divide between urban and rural areas in terms of social security, income and access to public goods in the context of dual economy, I don't think it is reasonable to expect an increase in consumption in 2012. What I mean is that the one and only method to promote economic growth in 2012 is to re-launch investment.



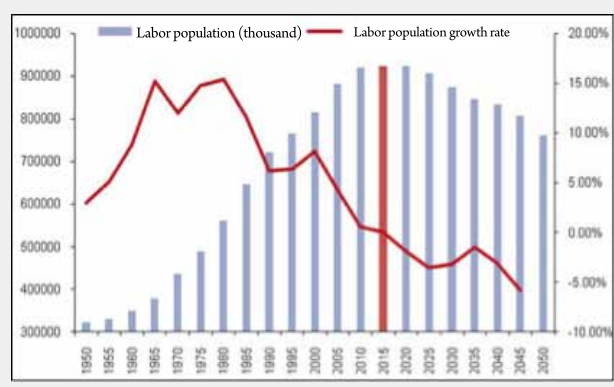
Source: NBSC

OK. Let's look at a severe challenge confronting us in 2012, that is, problems arise when financial resources interject into real economy. In the past ten years and before that, our finance, figuratively regarded as blood in economy, entered real economy in two channels. One takes the form of dollar reserves which come along with trade surplus, that is, what we call foreign exchange earnings and accounts for a significant source of liquidity interjection. Now that foreign exchange earnings decline rapidly, the blood that is interjected through this channel is reduced. This affects private enterprises enormously, for their growth relies heavily on export. In comparison, other enterprises are not much influenced. The other channel is real estate and real-estate-based local financing platform, that is, mortgage financing from land and real estate. This channel has been blocked due to strict real estate regulations. That the two major channels are blocked gives rise to a couple of well-

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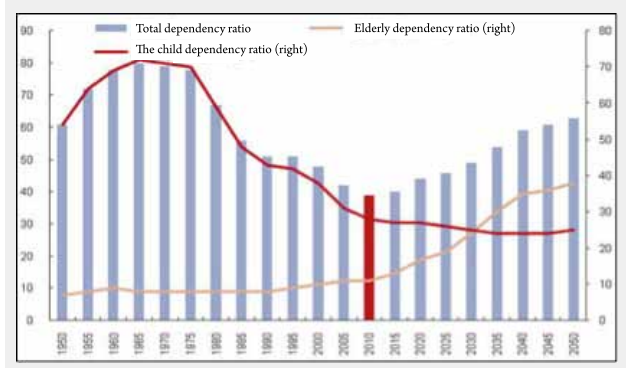
known problems. The central bank in effect implemented loose monetary policies in the first quarter of this year and the reserve requirements were on the decrease. But the interest rate remains the same. Since we have just come out of the period of negative interest rate, there's not much room for decrease in interest rate. Monetary policy has become loose. It turns out that enterprises are reluctant to obtain loans, for there is little profit in investment. I can show you the latest statistics from the first 20 days of May this year. China's four biggest banks only lent a total amount of 34 billion Yuan. In 2008, new loans per month amounted to 1 trillion. Therefore the new problem confronting us right now is the decrease in liquidity interjection.

Since time is limited, I won't elaborate on this. I will talk about some simpler issues. In the long run, we are faced with tough challenges. The most formidable one is the upcoming changes in China's population structure. China has implemented the only child policy since 1970s and the number of labor force will probably reach its peak in 2015. After that, the percentage of the labor force in the total population will decline. So will the total population. Besides, since the major part of our labor force comprise people born in 1970s, 1980s, 1990s and even 2000s, we also have structuring problems regarding labor market. Many changes have taken place as a new generation of students goes to college. All the only children wish to enter the white-collar class through college education, and there is not enough labor force for blue-collar workers, skilled workers and workers for other jobs.



Source: UN

The change in population structure also leads to the rise in old-age dependency ratio, which may further leads to a huge change in savings rate in China. A rapid rise in children dependency ratio and a rapid decline in old-age dependency ratio both shatter the foundation that enables Chinese savings rate to grow. Without this foundation, there won't be a high savings rate in China. What does this mean for capital formation? China's recent high growth rate is attributable to the high savings rate. What is our savings rate? It's 52%, which reaches a record high as compared to any other country in the world. Here, I'd like to give a brief mention of corporate savings, especially the highly profitable savings of our monopolies, and government savings. All these indicate changes in the long run. In whatever area reforms are implemented, such as tax policy, SOE, and population structure, there will be change in savings rate and decline in capital formation. In that case, investment increase or workforce increase won't be enough for sustaining Chinese economic growth. The only way that will hopefully further promote economic growth in China is technological advances. Economic restructuring, as Minister Long just mentioned, relies on TFP growth.



Source: UN

Table: China's Savings Rate

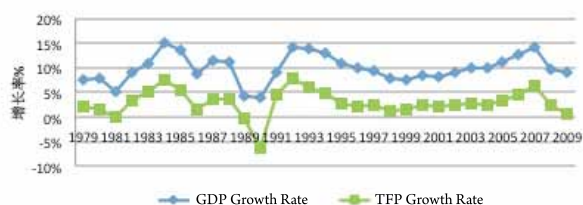
| | Actual value in 2008 (%) | Expected value in the long run (%) |
|------------------------|--------------------------|------------------------------------|
| Household saving rate | 22.5 | 13—14 |
| Corporate saving rate | 21.6 | 14—15 |
| Government saving rate | 8.2 | 1.6—5 |
| Total saving rate | 52.3 | 28.6—34 |

Data sources: calculations based on the China Statistic Yearbook (actual value) and our research (expected value)

Data sources: calculations based on the China Statistic Yearbook (actual value) and our research (expected value)

Last year, we conducted a project for the State Development and Reform Commission, in which we tracked TFP growth, as shown by the green curve. We've found out China's TFP grows particularly rapidly in three periods. The first period is indicated by the reform and opening-up policy and rural household contract system. The second one begins with Deng Xiaoping's south tour speeches. The third one concerns China's entry to WTO. What facts do they have in common? Above all, systems are reformed rapidly in China. What's more, there are large transfers of rural workforce, especially after China's entry to WTO. In peace time, there is over 200 million transfer of workforce, which is rare in the world's history. Shanghai's total population, including migrant population, is 23 million. A recent research that we conducted with Family Planning Commission shows there is still an unreported population. The actual population may well exceed 23 million.

GDP and TFP Growth



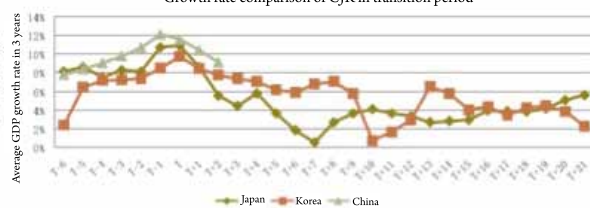
Furthermore, China is stuck in a middle-income trap, which is a common problem facing all developing countries when their GDP per capita reaches \$15,000. Japan's turning point came around 1970, and Korea's turning point came at the time of the Financial Crisis in Southeast Asia. By comparison, 2012 marks the turning point for China. Restructuring is probably what we are bound to experience.

Income comparison of CJK in transition period (Unit: Geary-Khamis Dollar)

| | China | | Korea | | Japan | |
|-------------|-------|------|-------|------|-------|------|
| Year | 2007 | 2008 | 1987 | 1988 | 1968 | 1969 |
| Average GDP | 4761 | 5568 | 4951 | 5655 | 4590 | 5250 |

Source: World Bank database

Growth rate comparison of CJK in transition period



In such a large country with a population of 1.3 billion, when GDP per capita exceeds \$10,000, \$20,000, \$30,000 or even \$40,000 and comes close to that of a developed country, we are likely to encounter new problems, owing to factors like energy consumption, gas exhaustion, environmental cost, as well as the recent large-scale industrial transfer to Middle and Western China. Geographically, the terrain of China is higher in the west and lower in the east. Sources of water are everywhere. If a large number of enterprises are moved to Middle and Western China, what if Yangtze River and Yellow River are polluted? I suggest you carry out a simple experiment with the weather in Shanghai these days. If the wind blows from the west, we won't have a good weather in Shanghai. If the wind blows from the east, the weather will turn out fine. It is because factories are mainly located in the western part of Shanghai.

What are we supposed to do? In what way can China maintain sustainable growth? The growth rate has an inevitable tendency to decline, and is difficult to stay at 10%. But we would not like to see a sharp decline in

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growth and we still expect a growth rate of 7%- to- 8%. Where's the room for growth? We do have much room and many advantages for growth. First of all, we will have large dividends from institutional reforms. Secondly, we have the advantage of labor instruments. I said that the number of workforce will reach its highest point in 2015, but I don't agree with the idea as is adopted by quite some other scholars that we have come to Lewisian turning point. China still has a lot of work force that can be transferred from the rural areas. In essence, institutional reforms make room for the transfer. Agricultural workforce in U.S. merely accounts for 2% of the total working population. By this standard, we can estimate the number of work force that can be transferred from rural areas in China. Thirdly, we have much room for capital formation. Though our savings rate has decreased, given Chinese people's particular consumption and saving habit, there is still much potential for a further decline in savings rate as compared to other countries in the world. Moreover, we will consider investment in human resources and regional differences. Nevertheless we have a lot of unfavorable factors, upon which I won't elaborate. In a word our factor market is distorted to a great extent.

In my view, the most essential and difficult reform is factor market reform. China achieved success in the first 30 years' reforms in goods markets. But the reforms in factor markets flounder around, for factor market reforms involve vested interests and it is difficult for the reforms to proceed. Firstly, we have labor market reform. Our 1978 reform begins with rural land contract system. But the collective land ownership doesn't suit the current economic development in China. It is difficult to decide whether land allocations should be affected by changes in household population. Secondly, how can we make industrialization, land-use in urbanization compatible with collective land ownership in rural areas? More problems come up when local governments take land from rural residents. Our solution is simple, that is, to allocate the land ownership to farmers. The real difference between urban and rural areas is the difference

in wealth. During the reform, when production factors are capitalized, especially when land is capitalized, farmers don't feel much of a wealth effect. Land reform will enable us to define land ownership in a new way. The central government, as I know, is working on this. Early this year, Development Research Center of the State Council aims to make sure about the exact amount of land in China. When the land is registered and the ownership is well defined, we all know what is going to happen. Since financing involves collateral and capitalization of collateral, the reform will make room for urbanization and financial growth. Zhu Min has referred to China as a small country in terms of finance. The scale of finance is out of proportion with that of real economy. While Hong Kong has a very large financial sector, ours is very small and the one for Shanghai is even smaller. Suppose Shanghai has a financial sector as large as that of Hong Kong, how many students are supposed to graduate from Fudan University? What constitutes the foundation? Land. The government should not hesitate to give land to farmers, and the process of urbanization will be accelerated.

Next, we should carry out reforms to create a uniform labor market. Now we have much distortion at the labor market and many problems in social security construction. There are a number of obstacles to labor mobility.

Finally, we'll come to capital market reforms. If China is to expand its financial sector, it must make its financial services strong and active. Suppose the financial enterprises can't serve the financial market well, it's impossible for Chinese financial market to maintain healthy development. Chinese financial market aims at financing. Initially companies listed on GEM enjoy stratospheric prices, and their prices decline sharply, which causes losses to small shareholders. U.S. Facebook was listed with the price of \$38. The prices fell recently. Small shareholder had planned to charge the distributors with cheating. I would like to introduce such system into China, giving people the knowledge that they can sue

if the stock price drops though it is very high when the stock is listed. If Chinese financial market and capital market can protect the interest of small shareholders, the sound development of Chinese finance is ensured. What is the main objective of finance? It is to serve real economy, industrial structure upgrading, and risk investment. It must combine with young labor resources. It should rely on returns on real economy rather than on over-hyping bubbles and manipulations by interest groups. Therefore, reforms in factor market and financial market are crucially important to China.

If all these reforms are well implemented, I believe we can have full confidence in rapid economic growth in China. In this sense, 2012 also represents a starting point for China, and we expect all the reforms to be on the right track, which prevents the decline in economic growth and makes Chinese economy healthier.

Since time is limited, I have to stop here. Thank you.

(Edited from a shorthand record)

Closing Ceremony Speeches



Paul A. Volcker

Former Chairman of the Federal Reserve

Ladies and gentlemen from all over the world, this is a unique opportunity for me to address you at the end of this very far-reaching conference, a very interesting program. I looked at the number of subjects that you have covered in the last two days, and I look forward to solutions to all the problems of the world. But, you might have left a few of them unexamined.

Let me say that just something about travelling around Shanghai over the last couple of days, I first stayed in Shanghai in 1980, 32, 33 years ago. I tell you it is a different place today than it was thirty years ago. It is unbelievable—the changes that have taken place, obviously not just in Shanghai but everywhere in China. China has very different concerns, a large population and is a major force in the global economy. It has a number of topics that you have stressed at this forum, which are representative of a wider interest. China's also witnessed a remarkable change in its economic affairs over the last thirty years, especially the last fifteen years. It is fair to say that these changes have not taken place without China becoming a considerable component of the world economy.

At this point, China has the second largest economy in the world, and with the rest of the world will want to continue to progress and will have to face all the problems of opportunity and responsibility. Let me just take a few minutes to discuss where we are in the world. This has been a very troublesome time in the last four and five years for the developed world. The world has made some sacrifices in the rather deep-seated crisis throughout the financial world. China has been able to escape and enjoy continued growth like other so-called emerging economies. I don't like this word any more – China has emerged, and we haven't got a name for it. Anyway, these emerging economies have become important for the first time in my memory. This part of the world, Asia and China in particular, has been the source of a great expansion in the world economy. It has supposed to be the other way around, with the developed countries leading the developing countries and bringing them along.

It's been the opposite. The developing countries in Asia have helped developed countries get through this

very severe and international financial crisis. Let me talk a little about this. I think it is fair to say that the Chinese financial system is not as developed, not as sophisticated as in London, New York and elsewhere, where modern developments tend to strange new phenomena, so called derivatives and spots and other ideas that didn't exist a few years ago, whereas China tends to be concentrated on a few traditional kinds of banking. It has turned out that these very systems have stood up better to the crisis than in other parts of the financial world. I think we have some lessons to learn from that in the West, and I think China has some lessons to learn too. For China, the lesson is not to follow blindly everything that went on in New York, London and elsewhere in the world. There were complications, lack of communication, risk tasking and a lack of transparency, which have turned out to be anti-growth instead of pro-growth. It's fair to say if we look back fifteen years ago how the Asian economies suffered collectively outside of China and Japan. It was a major crisis, and I think those countries have instinctively learned from that crisis to build themselves up in a more conservative way, building up reserves, building up savings, and other defenses against the financial crisis. The so-called developed world has on the other hand built up vulnerabilities that I think show we have not learned the lessons that Asia learned fifteen years ago.

I just want to make a point about the Asian financial crisis. It was vital at that point that China remained strong in Asia. There was a lot of controversy then, you may or may not remember, as to whether the Chinese RMB should be devalued. I have the feeling along with many others that had that happened the Asian crisis would have multiplied. But the Chinese and other governments held firm, which I think was a key move in solving the Asian crisis.

This all goes back to some degree to large questions of the international monetary system. I understand that

the forum may have touched on this a bit, at least as far as it affects relationships within Asia. But let us look at the bigger relationships in the world. The United States is the world's largest economy. We've had our problems but we're still the most advanced economy in the world, the largest economy in the world. And China, with a much bigger population and a key figure in terms of economic bite, strength. What do we see when we look to the relationship between these two largest economies? Some enormous contrasts. The United States likes to consume. We consume 70% of what we produce. We are consuming more than we are producing with imports. We are spending 70%, China is consuming 35%. It is unprecedented that any economy the size of China only consumes one third of what it is producing. That is a fact. China has this enormous investment which comes from a large government surplus. And what is the result? You like to export, we like to consume. It was a perfect match. Over the last ten years we were consuming \$5 trillion more than we were earning ourselves. The result was we paid in dollars, and China apparently liked the dollars, and they held on to them with very cheap interest rates. It was very comfortable for both of our countries. China did what it wanted; the United States did what it wanted. The United States had a big deficit and China had a big surplus. Nobody was going to do anything about it.

Of course this was a big problem that could not go on for ever. We could not continue to import like this for ever and you could not continue to take in dollars. We are now facing a financial crisis, we have high unemployment. Decisions have to be made. China has to make adjustments on the other side. China cannot expect to sit on these dollar surpluses all the time, adding and adding and adding to dollar reserves, many more than they need. We have the problem of adjustment. Why did we let this go on? If we said ten years ago in America that we were going to send five, six trillion dollars abroad, and pay for it by borrowing, and the Chinese said they were

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going to build up three billion dollars of reserves – more than you need for any possible contingency – something would have to give at the end, and nobody was willing to deal with this in an effective way before the crisis came. It was so easy for us to borrow money that we had great speculation in the real-estate market. That went the other way, and we have a big financial crisis that has affected the whole world.

I was fascinated by the fact that one of your topics in this forum looked at international monetary cooperation. This is an area that in my opinion has received far too little attention in the world generally. In recent years the idea has been that countries can do what they want to. But no matter how we look at this it's not okay so long as exchange rates affect each-other. When they carry out inconsistent policies, you have a problem. I think this is a problem for this conference and future conferences because it is a problem now for China, the United States and the rest of the world. People today are talking about whether it will make sense to have regional arrangements, about having free-trade zones and so on. This kind of talk is easy, and if you do it you still have to think about how you deal with the rest of the world.

Let me just say a word about the financial crisis, which has so affected the United States and European countries. Big international banks and firms of all sorts, even though the crisis hit in 2007, 2008, have gradually seen their fancy world financial system melt down. To maintain some consistency in this system, hundreds of billions of dollars have been spent to restore power to these institutions – it's true in the United States, in the U.K., and in Europe. People sit back and say that this is not the way it should be – this is not the way the capitalistic system works. These big financial systems should not rely on government assistance. How do we develop this system in a way that will provide some assurance of growth, and which grows towards stability and safety as well?

One of the central issues, and they happened to be discussing this at the European Summit on my way to

China, is that there are certain economic institutions that are essential to economic growth and stability. This is what we call good old commercial banks – they take deposits and real money and they take care of it in a way that is always available and safe. All the payments that you make and all the payments made around the world, those which companies all go through – this is the banking system. The banking system is the main source of money for big companies and small, it is a very important part of the global city economy.

Those are basic functions that have to be protected. Governments do protect them in various ways, and often in simple ways, they provide liquidity if a bank has a problem, deposits in the bank will all be insured. There is a central function that we have to protect, but we have to protect all the other trading models and all the complications that have arisen, with all the fanciful instruments of finesse. Some of them become speculative instruments that are not necessarily linked to anybody except those doing the speculation. Let me give you some proper numbers. Today I understand there are so called derivatives outstanding, and other financial instruments that are designed to reflect what is going on in the real market once it moves. These have become very popular – there are 700 trillion dollars of derivatives out there. The whole world economy is nothing like 700 trillion dollars. We are dealing with numbers many times the transactions in the real world.

The most famous of these derivatives is relatively new – it didn't exist ten years ago – the credit default swap. I don't want to go into details but it is a sort of protection – you can buy one of these derivatives and you will get paid by the company you were protecting in the event of its failing – it is an insurance policy. At the eve of the crisis, ten years ago, this derivative didn't exist. 60 trillion dollars was outstanding, and what is the significance of this? It was protecting insurance against commercial loans. The total number of commercial loans in the whole world did not exceed ten trillion dollars. So we had insurance policies that were 6 or 8 times what was being

insured. Which tells you these are not just insurance policies, they are also trading instruments. People were trading back and forth insurance policies as they saw a gain one way or the other. It turned when things went bad these policies were all tangled with each-other. This was a large contributor to the breakdown in the financial system.

That was just one example. In the United States and in Europe – I was seeing the strength of this feeling in Brussels a few days ago – there is the idea that we need a fundamental change in the system that involves structural measures. Everybody brings capital, that's fine. It's not enough. There are certain activities that it might be better that they did not engage in, because it might impinge upon their really essential functions. That is a large debate going on in the United States now. The U.S. is putting into law certain provisions that limit what banks can do outside of their basic functions. The Europeans are debating the same issue, though they are approaching it in a slightly different way. It is not so relevant for China today, though it is interesting because if one looks at Japan, you see that they have not engaged in this kind of trade, such speculation.

What I am suggesting in these remarks is that this is a good thing, not a bad thing. You ought to stick to your commitment to the basic function and the role of commercial banks. You will find that, as in the United States and Europe, those banking systems will become a little simpler, a little more straightforward and a little more dedicated to the fundamentals of commercial banking. There will still be a lot of activity in financial markets, but it will take place, even more importantly, outside of the financial system. When particular participants fail, as they will in many cases, though some will make a lot of money, the failures will not be so damaging to the financial system as this case with the commercial banks.

That's a piece of special pleading because I have been particularly interested in this issue in the United States

and around the world. There are much larger issues, some of which you have discussed in your forum. Almost all of these topics discussed in your Forum have a large international content – you can't deal with finance or trade in isolation. China, by its nature, its size and its growth and all its accomplishments it has had, and they are tremendous, brings with it a certain responsibility to a leadership in the world economy, and in developing harmonious and persistent relationships around the world. I can't imagine – I won't be around for another thirty years, that's a pretty safe prospect – but I can't imagine what Shanghai will be like thirty years from now after what I saw when I first came here. But I am sure that the prosperity of the place, its role in China and developing China, is going to depend even more on close and harmonious relationships with the rest of the world. I hope that in U.S. we can solve our very big political problems in a way that means our responsibilities to reach out and seek harmonious international monetary relations and trade relations, policies towards the environment and medical problems, aging economies and the aging population – and none of these can be solved in isolation. And I thank you for allowing me a few minutes to at least vent my own feelings about what is going on here, and what position we are in the world economy – thank you for having me.

(Edited from a shorthand record)

Closing Ceremony Speeches



Adam Przeworski

Professor of Politics and Economics, New York University

I have to begin with an apology to the organizers of this conference and our hosts, because I am about to commit a tremendous blunder, which is I am going to talk about politics. I did not realize that the Shanghai Forum has a monopoly on economics – the monopoly on politics belongs to Beijing. This is particularly hard for me because I have an office on the fourth floor of a building – the political economy floor – and below me there's politics, above me there's economics. So you see the line is very thin. I go one flight up, I'm in economics, and one flight down and I'm in politics.

But I also have a more serious excuse, that I deeply believe that economic development is an inextricably political process, and I teach my student that. This goes back to an old article by Amartya Sen in the 1960's, that was called 'Isolation Politics'. Amartya Sen observed that if we treat players in an economy as isolated individuals, then each individual would every time consume as much as possible, while he would want at the same time for every individual to save as much as possible. Why?

Because if others save, the economy grows and the consumption possibility for each increases. Now, this is a collectively suboptimal situation, as in one periodical it was referred to as a prisoner's dilemma, but it has now been shown that outcomes of such situations over time depend on how conflicts are organized and regulated. This is why my talk is going to concern ways of managing conflicts.

I want to emphasize that in every society there are conflicts, about all kinds of things, about religion and ethnicity, values and taste, whatever you want. Even minor issues can evoke passions – in France there is an intense political debate whether football players on the national team should be forced the national anthem during the games. It is the subject of conflict of some significance. What I am going to do is provide a very schematic description of different mechanisms for managing conflict. We will look at the advantages and disadvantages of this system and where they do and do not work. This is not a classification of political varieties – I am not into labels – I just want to understand the conflict.

You want this thing, and I want this thing, maybe you have it and maybe you want to take it away from me, and vice versa. I very much believe that in all political systems different conflict processing systems are combined and in different ways. But an element of each exists in each political system. This is not a classification of regimes of political systems. It is a list of mechanisms.

What are they? Some I am going to call monistic. These are the mechanisms that deny there are conflicts and suppress the emergence of collective conflict. Some are pluralistic – these organize conflicts, and there are some political forces which constitute themselves and then regulate the conflict. The specific forces I am going to talk about are exhortations to unity, repression, often accompanied by co-optation, institutional regulation through elections, and I will probably not get time to speak about regulations of labor capital and collective bargaining, but I will have them on the list anyway.

First mechanism: the exhortation to political unity. I want to emphasize that all rulers in all countries use this mechanism. What do they do? They claim that the people are united (this is an eighteenth century foundation represented to Western governments at the time) and that there are no fundamental divisions in society, values are harmonious, and that political life can be guided by consensus and that cooperation is superior to conflict. These evocations and slogans are loaded with their own attractiveness. If everybody wants the same state of the world to prevail – what does it mean? It means it makes no difference who makes collective decisions, because everybody will make the same decision, and that it doesn't matter how they are made, because the outcome will always be the same. Moreover political conditions are self-enforcing, it is not that someone is going to tell you what to do but that no coercion is necessary. Rulers, then, derive authority from pursuing the national interest. Note, I just want to make it real for you, that

these ideas are repeatedly advocated by appeals to nationalism and appeals to common roots. My daughter went to pre-school in a French kindergarten in which there were Vietnamese children and American children all taught that their ancestors were all ghosts of occupied France in the sixth century. There are appeals to common roots, celebration of the national holidays and pride in the national army and the performance of the national football team, and so on.

Even in countries that hold partisan elections, the first speech given by the victor of elections is always the same 'unity speech'. Jefferson in the United States gave one when the country was so conflicted that it was on the verge of a civil-war. President Bush did it in the year 2000. Francois Hollande just did it two weeks ago. I know of no systematic way to assess their causal impact, but my suspicion is that people do value decisions that can be judged to be true and just, not just decisions that reflect regulations and rules. People do value decisions based on broad majority rather than just application of majority rule. People value decisions that have some kind of substantive merit, not just procedural evidence.

The example that I wish to cite for you is that in every country I know of in which opinion polls are conducted, namely confidence in institutions, it is always true that there are institutions that come out on top, such as the church, and that institutions at the bottom, those that divide people are governments, parties and politicians. But I think that the exhortations to unity and harmony and cooperation are so ubiquitous that this is sufficient evidence that they must be integral. Now, I just want to emphasize that the major issue in every political system is whether to tolerate organized opposition. The most striking aspect of this is that people in the West, when they are presented with institutions, when they were first established, had very ambivalent views about opposition subjects. As Richard Hoftstadter has explained, the

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normal views of governments towards opposition is that it is intrinsically subversive and illegitimate.

I am going to run a little bit with this idea and show you how Madison – the architect of the American constitution – wrote in the first sentence in defense of his constitution that the merit of the constitution was in preventing the formation of factions, which meant political parties. John Adams, the second President of the United States, said that there was nothing he was more afraid of than emerging political parties. James Monroe, the fifth president, said that one party system was okay, because unity gives everybody a common goal, and with disunity, problems multiply. I'm just going to show you two quick quotes, one being from the first Federal address of George Washington, in 1796, where he says that no organized opposition towards the government is legitimate, and the danger with organized opposition is it is going to encourage people to want to just win elections, and then we are going to have parties which will pursue their own program rather than defend the "delegated will of the nation" French revolution, the foundation of freedom and democracy and representation. Here is the last decree of the national assembly, 1791: nobody can organize in any form and appear in collective nature to oppose the government.

Now, think then of mechanisms that attempt to prevent the rise of opposition. One way to think of it is that there are a number of individuals, and each individual has some endowment – it can be economic or social position, it can be values. And, some of these individuals are dissatisfied with the system. This information is a private knowledge that can be spread through the private networks in which individuals are embedded. There are a number of people who I think directly communicate this. The rulers in a system have I think three ways of preventing the rise of opposition. One is propaganda, two is repression, and repression means to remove forcibly those dissatisfied individuals at the core of large communication networks. The third is cooptation, reallocating elements in such a way that more people are satisfied.

Individual dissatisfaction can be tolerated if it concerns people who are in dense communication networks and if in any case it is difficult to find out who is in communication with who else. The problem with this system is that it tends to suppress information that would actually be useful, especially on bad policies. Some government policies are erroneous, and a system which suppresses dissatisfaction will not find this out. You know the work of Amartya Sen – famines in America, this is what it is about. They lack the signaling function that can foresee negative outcomes. Secondly, they don't have mechanisms to process conflicts that are not threatening to the regime – all kinds of minor conflicts that otherwise would be handled. In this sense this kinds of mechanism is vulnerable to explosions – I give a list in the slide – there is a little protest here, a little protest there, and with some coincidences along the way and solid communication you can have explosions – my own country, Poland, as you have seen, has experienced in 1955, 1968, 1970, 1976, one explosion after another.

Cooptation I am going to say very little about – only that typically repression and cooptation come together, because if you are going to successfully co-opt you have to reduce the number of dissatisfied individuals. The problem with cooptation is that the mechanism will spread even if it is not a response to immediate crisis. Machiavelli already observed hundreds of years ago that making concessions when a city is already besieged is not credible, because everybody knows that concessions may be withdrawn once a siege is lifted. So the credibility is one issue, and the other issue is something that Leon Trotsky once observed, when he said that bureaucrats never forget about themselves when there is something to distribute, which means that cooptation is very liable to corruption.

This much is about monistic measures. Pluralistic mechanisms are basically mechanisms where conflicts are allowed to be organized, but always in particular ways, and they are regulated. So they produce an interplay according to certain rules, such as elections, which are pluralistic, but there are not competitive in the sense that they incumbent loses, just there is some certainty about what the relation

of forces is. They reintroduce peace by two mechanisms – power sharing and then something dear to my own heart – partisan alternation in office. I’m just going to say one thing about this alteration, and how it works. Think of it this way – there are two parties, and one loses in an election. This party may want to fight. Suppose that the conflict is resolved once and for all – this is the election of a dynasty, which once elected will be there forever, or at least the foreseeable future – then the incentives to fight will be very strong. But suppose that this decision is made just for four years. Then the loser thinks that he or she should wait, we may suffer for four years but at the end of it maybe we are going to win. Maybe we will lose again. What regular elections do is provide incentives to conflicting parties for them to wait patiently.

I want to reemphasize that this does not mean in pluralistic systems everything is possible. Every system regulates access to its own political body – unfortunately in the United States this is to a great extent regulated by money, by access to financial resources, entering into politics is extremely expensive, and is probably one of the most expensive industries in the United States. Barriers to entry are enormous, and there are other institutions which also mitigate the range of possible outcomes, so that not everything is at stake – institutions such as courts and regulated central banks, bicameralism, what not.

I am not going to talk about collective bargaining or courts, because time is running short, so let me conclude. I would like to conclude with a memory I have of the first time I participated in a large international research project in the mid 1960’s which involved local leaders from India, Poland, Yugoslavia and United States. One of the questions in our questionnaire was: “What are the problems in your local community?” We discovered that in the United States there are a lot of conflicts, but in Communist Poland, there were also a lot – where to build a school or a hospital, or to put a bus stop here or there. But as for the Indians, the conflicts they mentioned were zero. It turned out that the word ‘conflict’ for them meant killing each-other – Indians can not think in terms

of other alternatives of harmony and cooperation or killing. I was reminded of this in Korea in the early 1990s, on a panel with the minister of labor, who was a former military governor, who complained about the violence that accompanied illegal strikes. I said to him “Well, it’s very simple: legalize and regulate them” He said that in Korea limited conflict was impossible – either you have conflict or cooperation or its opposite. I want to remind you – this is why I chose the slides – people in the West thought the same 200 years ago. Any kind of conflict was dangerous, but we have learned over time that conflicts can be processed and regulated. Pluralistic conflicts, if they provide sufficient incentives, can maintain peace and results that are obeyed. It is true that these mechanisms and not always work. It is true also that at particular times they produce winners and losers. Losers have to be patient and wait. But I think we have learned over the centuries that we can wait. Thank you.

(Edited from a shorthand record)

Shanghai Forum (2012) Interviews with Guests



During the annual conference of Shanghai Forum (2012), students of Fudan University made interviews with some of the delegates for their opinions concerning the development for 2011-2020. Among them were well-known scholars doing theoretical research, governmental officials making policies, as well as business representatives working at the production line. At the starting point of the second decade of the 21 century, they expressed their respective expectations of social development under the background of economic globalization. Here we extract some thought-provoking perspectives for your reference, and the complete version of *Interviews with Scholars* will be published soon.

Chen Xinhua

- Director, Beijing Energy Club
- Guest of the Panel: Low Carbonization, Security and Ever-increasing Demand: Restructuring of Asian Energy System

In the past, we've put too much emphasis on the quantity of energy. It's time to shift our focus to the quality. Let's say, to improve the quality of oil products, to stabilize the frequency and voltage of electricity, thus providing more premium resources to China's economic development.

In the coming decade, few changes will happen in China's energy industry. As a heavy industry different from IT, energy industry must follow the Conservation Laws of Thermodynamics, so it is barely possible to achieve leapfrog development. The development process can only be revised step by step.

Hua Min

- Director, Institute of World Economy, Fudan University
- Guest of the Panel: International Trade, Investment and Governance with the Intensifying Economic Crisis

In terms of the government, it is a must to change from the tightening industrial policy to an expansionary one, thus encouraging the reflow of social capital from real estate to those industrial sectors in full liquidity. And for enterprises, it's necessary to lower their financial leverage and focus on industry. Stable economic growth is definitely based on the real economy.

The continuous economic growth of Shanghai must rely on the improvement of TFP and knowledge factor, the former realized by the market and the latter by government investment in education and R&D. So the future path of Shanghai locates itself in insisting on marketization firmly and changing the government's role from the leader to a supporter and server of economic growth, which can be called as an institutional innovation.

Chingyuan Lin

- Associate Professor, Department of Economics, Tamkang University, Taiwan
- Guest of the Panel: Economic Development and Social Transformation: the Historical Experience of Social Transition in East Asia and China's Future Road of Development

The mainland China's economy is rising. With good institutions and no big mistakes, it's not that difficult. But the rise of civilization is quite another thing. It is a long journey to go through and we should pay attention to prevent people's minds being corroded by economy.

Why should we build a common currency? As for the European countries, they want to compete with the United States by using Euros. It is widely accepted that there will be a tri-pillar pattern in the future. However, it is difficult for Asian Yuan to function in the short term. So, we had better at first solve those conflicts within Asia and cooperate in resource sharing, benefiting Asia on the wholesome level.

Lin Yi

- Secretary of Party Committee and Executive Director, Beijing Renewable Auto
- Guest of the Roundtable: Renewable Energy: Enlightening the Asian Green Development Roadmap

China has provided huge subsidies to the demonstration operations of electric vehicles. For instance, each pure electric car can be given a maximum of sixty thousand. Local governments will also add some, according to their financial grant. So frankly speaking, the problem of high costs can be partly overcome. But we companies would like to see that such subsidy policy last for a longer period. Furthermore, the government should also encourage more charging facilities to be built.

Shaw Chen Liu

- Director, Research Center for Environmental Changes, Academia Sinica, Taiwan
- Guest of the Panel: East Asian Ecological Construction Strategies for 2011-2020

We should take the issue of global warming as a truly new science crucial to our country and include it in our policy-making. The Chinese government occupies large amounts of resources, which can be taken full advantage of in such huge adjusting projects. Mobilizing resources can be done successfully, if our government realizes that it is inevitable to do so and makes full determination.

Shanghai Forum (2012) Interviews with Guests

Peter McDonald

- Director of Australian Demographic and Social Research Institute, the Australian National University, Australia
- Guest of the Panel: [Asia's Population and Social Development for 2011-2020: New Challenge, New Strategy](#)

If China is worried about population growth, it can move to a two-child policy. It's very simple. But I don't think there is any guarantee that the birth rate in China will actually rise, even if people are allowed to have two children, because in the big cities like Shanghai, people on average have less than one child. Some people will not have children at all.

So I think that China has to think that supporting the old generation is not just the family's responsibility but a public responsibility. Particularly for this generation, it was China's government that decided that China should have the one child policy. The result now is that the one child is required to look after a lot of old people. Therefore the Chinese government has a moral obligation to assist with aged support.

Chung-In Moon

- Professor, Yonsei University, Korea
- Guest of the Panel: [Creating a New Regional Order in East Asia](#)

We cannot imagine an East Asia Community without China. Still, China is not ready to play leadership at present, for leadership means provision of more qualified goods. But for the time being, the speeding up of cooperation itself is the most important one.

Asia, particularly Northeast Asia, will be the center of economy in the world stage. Asia will be the most important. Without Asia, world cannot work.

Eiji Ogawa

- Vice President, Hitotsubashi University, Japan
- Guest of the Panel: [New Mission for International Monetary Governance: A Win-win Situation](#)

If you ask me when the Asian Monetary Unit will function, I could only answer you that there must be a long period before that. The crisis sweeping through the euro zone results from lack of government regulation, so we suggest that AMU be regulated by all Asian governments. However, RMB cannot be the core currency supporting AMU, for it fluctuates too violently and furthermore, it is not convertible.

Park In-kook

- President, Korea Foundation for Advanced Studies, Korea
- Addresser of Shanghai Forum (2012) Closing Ceremony

Nowadays, Asian countries have shown regional structure. The integration process of Asian economy is still in the primary stage. So we should study more about the issue so as not to fail on the way.

To strengthen the China-Korean strategic cooperation in culture, education and academics will somehow ensure a better development of China-Korean relationship both in quality and in quantity. Only in this way can the development of the relationship contribute to the development of East Asian integration.

James B. Steinberg

- Dean, Maxwell School, Syracuse University; Former Deputy Secretary of State, U.S.A.
- [Keynote Speaker of Shanghai Forum \(2012\) Opening Ceremony](#)

We need to have leadership that convinces our publics that even though they appear to pay a price for globalization, that actually they would be even worse off if we backed away from it.

We have a lot to gain from working together and a lot to lose if we end up in conflict. We also know that there are a lot of forces both internal to the two countries and in the nature of the way states interact with each other that can tend to lead to conflict. Left unguided, the risk of conflict between countries is high. So, the only way to achieve positive outcomes is through determined effort on both sides to keep our eyes focused on the big, long-term goals, and to make a serious commitment to each other to avoid conflict.

Importantly, if China wants to be accepted as a global power, it will have to be convincing about its willingness to play that role as a provider of global public goods.

Paul A. Volcker

- Former Chairman of the Reserve Federal
- [Keynote Speaker of Shanghai Forum \(2012\) Closing Ceremony](#)

The Chinese banking system would, I think, benefit from some more competition, particularly competition from non state-owned companies.

The banking system which feeds the state-owned enterprises needs to feed small and independent companies. We still got some distance to go here, but you've been doing very well.

Xue Lan

- Dean, School of Public Policy and Management, Tsinghua University
- [Guest of the Panel: Entrepreneurship, Innovation and Sustainable Management](#)

Imperfection of the market is the biggest constraint on innovation. We should first protect intellectual property, for example. Second, we should reduce the barriers to entry and strike unfair competition including monopoly. Third, we should crack down the disorderly conduct, such as pollution, intellectual property infringement, and so on. Besides, we should improve the financing environment and establish a more complete credit system. All of above are important components of a perfect market.

I prefer institutional innovation to technological innovation in perfecting our social regulation system.

Anthony Yeh

- Director, Centre of Urban Studies and Urban Planning, University of Hong Kong
- [Guest of the Panel: Asia's Urbanization and Urban Transition for 2011-2020](#)

Shanghai may become a world financial center. Today Shanghai is the financial center of China, and the obstacle for Shanghai to become a world financial center stems from China's non-floating foreign exchange regime, in which you cannot get enough foreign investment. But Shanghai has performed quite excellent as the center for producer services.

If one day, the U.S. stepped down from the dominant position of the world, and GDP per capita of China rose from \$3000 to \$10000, that would be a world for China. At that time, Shanghai would be the world financial center, of course.

Shanghai Forum (2012) Consensus



Financial and economic crisis is spreading all over the world, affecting every country despite their various systems. The crisis leads to vital changes in global economic map: Asia is playing a more and more important role in the global economic and political system, and has been making ever greater contributions to world economic growth. During 2011-2020, Asian development will surely play a more important part in the reconstruction of global economic and political order. However, Asia itself has many difficulties that need to be solved and that require Asian countries to positively promote structural transformational development, to deepen, enrich and improve cooperation among each other, and to provide new, sustainable force for Asian economic development and cultural progress. This year's Shanghai Forum takes "Strategy for 2011-2020" as its theme, trying to seek wisdom and consensus for Asian development and global recovery.

▶ 1. Basic Situation of Global and Asian Development for 2011-2020

We think that 2011-2020 is a time for further adjustment of the global and Asian order, as well as a time for important opportunities for Asian rise, and to continue positively dealing with financial crises is still the basic challenge that Asia faces at present. The challenge requires every country to fully play its governmental function, to continue promoting reform of economic system and monetary system, to make more and more breakthroughs in fields like energy resources, etc. and to probe a way for Asian development.

First of all, we should bring governmental function into full play.

The root of this crisis is Kondratiev long-term adjustment, and the triggering mechanism is debtors' (American sub-prime mortgage debtors) widespread breach of contract. After the explosion of crisis, there are two choices that every government over the world has: one is to refuse to bail out the market, which may lead the crisis to depression, a consequence that people around the world cannot accept. To avoid depression, government needs to bail out the market. However, bail-out policy that government takes to protect economy from depression may not guarantee the increase of jobs and activate private investment, which means that government has to depend on increasing debts to gain capital for market bail-out.

The deepening global financial and economic crisis urgently requires every country to enhance cooperation and to take rational action in order to solve grave problems which may cause the crisis to further deteriorate: to promote free trade through further opening-up of the market; to control short-term capital flow through moderate capital management; to strengthen the flexibility of social and economic structural adjustment through reform of education development and welfare system; to achieve innovation through stirring entrepreneurs' confidence.

Secondly, we should promote global economic order adjustment through reforming international monetary system.

Since the breakout of global financial crisis starting in the United States in 2008, the flexibility, stability and leading balancing function of U.S. dollar in international monetary system has been weakened because it is deeply caught in the "Triffen Dilemma"; at the same time, because of the

acceleration of downward adjustment of economic cycle in European Union and the deterioration of sovereign debt crisis, Euro cannot take on the “currency anchor” mechanism that the world expects super-sovereign currency to maintain in order to support global economy.

With the losses of global “currency anchors”, main developed countries have to let loose various quantitative easing monetary policies in order to rescue financial system and real economy, which leads to proliferating global liquidity. The turbulence caused by various short-term speculative arbitrages not only gravely affects the recovery of global economy, but also heavily attacks many emerging economies. These countries become targets for international hot money because of improper financial and currency policies and suffer double blows of asset bubbles and inflation. Moreover, east-Asian countries like China that own large stock of U.S. dollar and Euro capital face the risk of serious shrinking wealth. Based on the above facts, it is high time that we reformed the current risk-ridden international monetary system.

There are two possible ways for the international monetary system reform: the first way is to enable U.S. dollar to retake its function as global product – to provide “currency anchor” for currencies around the world, to provide flexibility and stability function for international financial activities; the second way is to establish a new global currency system based on “special drawing right” – to push over the current international currency system and establish a new one. It is necessary to point out that to achieve global consensus and strengthen international policy coordination is the primary condition whether we choose to maintain the current international currency system led by U.S. dollar, or we choose the “SDR mechanism” of reserve assets which can better reflect emerging market countries’ profits.

Thirdly, we should effectively break through restraints of energy resources and to promote economic growth.

With the rapid development of Asian economy, Asia’s need for energy resources greatly increase, yet, the regional supply of energy resources fails to keep up with the pace of economic development. Looking from the supply angle, Asia’s energy resources suffer both shortage of total amount and imbalance of energy structure. The imbalance between Asian countries’ consumption of energy resources and supply of energy resources has to be solved through international market. However, the energy resources environment that

international market provides is not friendly. Till today, we can clearly see that the severer monetary speculation in international energy resources market and the increasing number of carried out policies that strictly control the use of high-carbon energy resources have already led to the situation where a lot of profits created through Asian economic development flow to countries enjoying energy resources financial advantage, new energy technology advantage, and non-coal resources export. Such situation is a vital challenge that cannot be ignored for the majority of Asian countries that are developing through industrialization. At the same time, the risk assessment of climate change shows that the impact of climate change upon Asia may be much higher than upon other regions because of large agricultural population, low intensive agriculture production level, and lack of natural resources such as land, water, energy, etc.

In order to effectively face such challenge, Asian countries must choose a way for energy development that matches the practical condition in Asia. Due to the fact that the majority of Asian countries are still in the process of industrialization, the low-carbon way should be pushed forward step by step under the condition of dynamic evaluation of economy, social overall cost and profits. Low-carbon economy is still a high-cost economy under current technology development level, and the majority of Asian countries that are in the primary stage of industrialization still lack essential investments and incomes to support their consumption for high-cost clear energy. Therefore, Asia’s low-carbon transformation should start from reform to clean and low-carbonize the current fossil energy-based supply system; and the next step is to welcome the new energy revolution wave of developed countries, taking into account the Asian reality and the improvement of technology support, market foundation and system design. During this process, governments of Asian countries should endeavor to launch multi-lateral



Shanghai Forum (2012) Consensus

cooperation in low-carbon technology, energy saving technology, and new energy technology, to establish regularized resources environment policy coordination mechanism, to jointly promote the development of new energy industry, environmental friendly industry and energy-saving manufacturing industry, to enhance Asia's pricing power in the commodities like energy, etc., and to avoid the loss of growth dividend. Resources, environment and safety cannot be separated. Cooperation among Asian countries can yield mutual benefits, while separation can lead to mutual losses. To gain mutual benefit requires consensus and cooperation – consensus requires communication, and cooperation needs frankness. Asian countries need such communication and frankness.

▶ 2. Strategic Choices for Asian Development from 2011-2020

During 2011-2020, large-scale adjustment of economy society structure and reconstruction of regional economic relationship will be one of the important topics for Asian development, and as a result, Asia will play a more important role in future world system. To better promote Asian development from 2011-2020, we need first push forward structural transformational development of different Asian countries: Every Asian country should promote its structural transformation according to its own development stage, and push forward the overall development transformation of Asia; secondly, we should promote cooperation among Asian countries, and try to establish complementary regional cooperation mechanism; thirdly, we should promote technological innovation of advanced cities and regions in Asia, thus promoting Asian economy development and construction of industry infrastructure, and moreover, we should enhance the growth and development of new strategic industries and promote the restructuring of the regional industries



through continuous innovation.

In order to achieve Asia's prosperous development and sustainable economic increase for 2011-2020, Asian countries need to work hard in the following aspects:

First of all, we should make full use of demographic dividend. The basic feature of Asian countries' demographic condition is large population with huge differences among countries. Change of demographic structure of different Asian countries will lead to the reconstruction of the whole Asian economic map, and global manufacturing is highly possible to move step by step to places with cheaper labor forces such as mainland China, Vietnam, Laos and some other Southeast Asian countries.

What action should Asian countries take in the face of demographic structure and change of economic structure within Asian regions? For Southern Asian countries where population grows rapidly, it is wise for them to make full use of their demographic dividend; for East Asian countries that have been facing the problem of aging population, they should reform current labor and welfare system in order to increase labor provision. At the same time, they should also improve labor productivity while decreasing its quantity through a life-long education, so as to achieve sustainable growth by enhancing quality rather than quantity of labor.

Secondly, we should make full use of urbanization dividend. Industrial production based on scale economy has endogenous requirement for spatial agglomeration. Therefore, industrialization will surely bring about urbanization. To promote urbanization is not only an internal demand for industrial activities, but also an essential condition for innovation and sustainable economy development. Asia enjoys rich urbanization dividend. However, the problem is that what kind of urbanization Asian countries should take for such rich urbanization dividend.

Learning from experience of failure of Latin American countries' urbanization, Asian countries should set up more social investments for cities' modernization transformation during the process of urbanization. Specifically, governments of Asian countries should continue increasing investments in city infrastructure (especially productive infrastructure) construction, and provide a more effective industry development platform; they should reduce social and economic cost for city life and create more job opportunities; they should increase investments in education, culture, social security, etc., to promote urban culture transformation and culture integration; they should



promote compact city construction and improve cities' sustainable development; they should promote free flow of population and break the administrative barriers of population flow between cities and the countryside. Through the above ways, Asian countries can not only promote urbanization, but also push forward reform and transformation of economic system so that they can guarantee a fast and sustainable economic development.

Thirdly, we should make full use of the system innovation dividend. Due to different historical and cultural backgrounds, Asian countries vary in their transformation degree and speed, which means that there is huge space for system innovation in Asia, and that the system innovation dividend has not been fully exploited yet.

Starting from the second half of the 1950s, some Asian countries successfully achieve social transformation. Such change happening in some Asian countries provides system guarantee for sustainable economy development and continuous society progress, and provides useful reference models for those that have not achieved transformation yet. On the other hand, the main reason that leads to lack of innovation of Asian enterprises lies in culture and system. Therefore, to activate entrepreneurs' innovation through culture and system innovation will become a key to the overall improvement of Asian enterprises' international competitiveness.

▶ 3. Asia's Sustainable Development Requires Cooperation and Peace

The adjustment of Asian economic and social order is hand in hand with stronger and stronger inner competition and friction, which makes it an urgent task to safeguard peace and promote regional cooperation for Asian development.

With the deepening of economic globalization and

regional economic trade relationship, it is necessary for Asian countries to strengthen legal cooperation in some main fields such as economics, trade, finance, civil and commercial affairs, intellectual property, environmental resources and judicial collaboration. Therefore, Asian countries need to establish systematic, regularized multilateral mechanism in regional finance and financial laws cooperation for stable cooperation among countries. Means for legal cooperation can be international "hard law" mode, or "soft law" mode, or surely a mixed mode that effectively combines "hard law" and "soft law" together.

To promote Asian cooperation requires every Asian country to positively and effectively handle conflicts during the process of adjustment of global and Asian order, to exclude interference that may intensify contradiction, to respect every country's vital benefit, to harmonize every country's development strategy, and to create peaceful and stable internal and external environment for Asian development. The experience of global and Asian long-term development proves that only through equal, positive and sincere cooperation can Asian countries achieve profits as well as overall development.

Delegates of this year's forum all agree that 2011-2020 is a critical period of time for Asia, during which Asia most needs to maintain regional peace, enhance inner cooperation, push forward urbanization, and promote sustainable development of regional economic and social progress. In this process, Asian countries should stick to cooperation and creation, try hard to push forward structural transformational development, promote Asia's status and function in the world, and create a time for Asian development and prosperity.

Shanghai Forum (2012) Consensus, a product of joint efforts by scholars from Fudan University, was announced and issued by Prof. Zhu Zhiwen, Chancellor of Fudan University, at the Closing Ceremony of the Forum.

The complete version of the Consensus was published on Jiefang Daily, June 4, 2012, titled "Promoting Asia's Development Transition for the Next Ten Years".

Shanghai Forum (2013) Theme

Economic Globalization and the Choice of China

— Asia's Wisdom: Seeking Harmonious Development in Diversity

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Scale: About 400 delegates from academic, governmental and business sectors

Shanghai Forum (2013) cordially looks forward to your support and participation.

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Concentrating on Asia

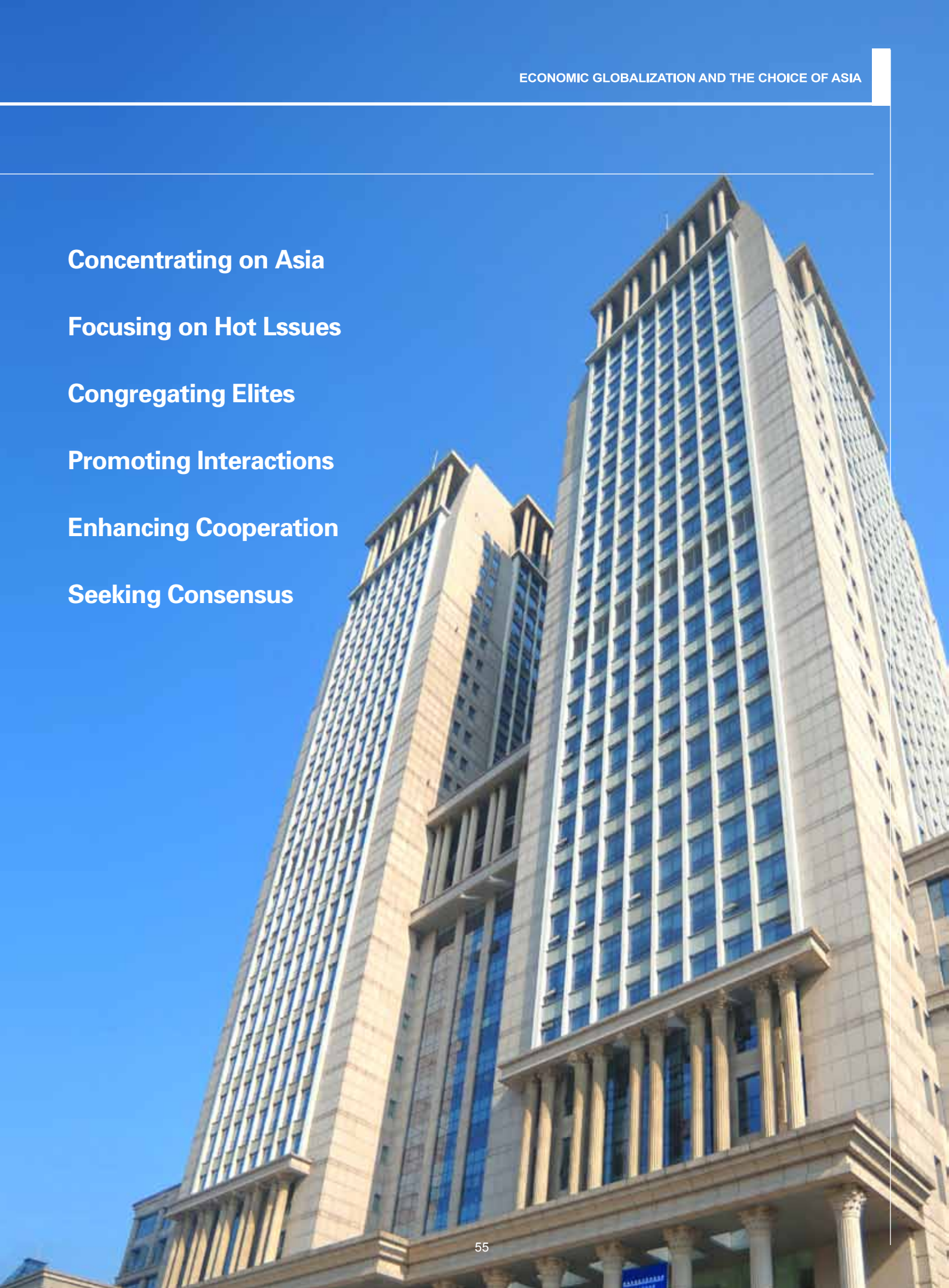
Focusing on Hot Issues

Congregating Elites

Promoting Interactions

Enhancing Cooperation

Seeking Consensus





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