

# NEWSLETTER SHANGHAI FORUM

ECONOMIC GLOBALIZATION AND THE CHOICE OF ASIA

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*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 (2014) Opening



“ The opening ceremony of Shanghai Forum 2014 was held on May 24 at the Shanghai International Conference Center. This year’s focus was Asia Transforms: Identifying New Dynamics. Over 500 delegates representing nearly 40 countries and regions attended the ceremony, which featured opening remarks from special guests: Tu Guangshao, Executive Vice Mayor of Shanghai; Han Seung-soo, Former Prime Minister, Republic of Korea; Yang Yuliang, President of Fudan University; and Park In-kook, President of the Korea Foundation for Advanced Studies. In addition, Fang Jun, Deputy Director of Foreign Affairs Department, Ministry of Education delivered a speech on behalf of Hao Ping, Vice Minister of Ministry of Education, with Zhu Zhiwen, Party Secretary and Chancellor of Fudan University, presiding over the meeting. ”



Following the opening remarks, a number of keynote speeches were given by the following distinguished guests: Robert Shiller, 2013 Nobel Laureate and Sterling Professor of Economics at Yale University; Adam Posen, President of Peterson Institute for International Economics; Michael Grubb, Professor of International Energy and Climate Change Policy,

Institute of Sustainable Resources, University College London(UCL), Editor-in-Chief of the Climate Policy journal; Sha Zukang, Former United Nations Under-Secretary-General for Economic and Social Affairs and Honorary Director, Institute of International Studies, Fudan University. Their speeches illuminated a variety of issues, such as economics, foreign relations, culture, society, and the environment of Asia and China. The speech part was chaired by Park In-kook.

This year’s forum is held from May 24th to May 26th, consisting of nine panels with different takes on the development and the dynamics of Shanghai’s, China’s, and Asia’s future with the following key themes: “The Chinese Economy at Crossroads: End of Hyper Growth?” “Structural Transformation of the World’s Economic Growth and New Challenges to Asia,” “Financial Innovation and Financial Stability,” “New

Perspectives on Asia-Pacific Cooperation,” “Policy Guidance for International Metropolis Development: Innovation and Wisdom,” “The Changing Labor Market in Asia,” “Urbanization Upgrading and Future Cities,” “Innovation Path to Sustainable Development for Environment and Health System,” and “Towards Inclusive Growth: Green Energy Transformation and Environmental Climate Governance.”

In keeping with tradition, Shanghai Forum hosts a high-level dialogue, this year focusing on the topic, “China and Asia under Haze—Environment Security and Countermeasures of Science and Policy,” as well as high-level roundtables, “Asia’s Growth Bottleneck: Who Can Be the Ice Breaker?,” “Asian Cities and Social Development during the Transitional Period,” and “The Role of Social Enterprises for Overcoming the New Challenges in Asia.” Unlike previous years, Shanghai Forum 2014 also includes a discussion on the future development of the Shanghai Free-trade Zone: “FTZ Special Session — Key Factors of a Successful Free Trade Zone.” Participants will engage in heated and productive discussions relating to their respective fields of expertise, and integrate policymaking, business, and academic for forward-looking consultation on important issues.

Shanghai Forum, first held in 2005, is hosted by Fudan University and the Korea Foundation for Advanced Studies, and organized by the Fudan Development Institute—a new research organization for higher education. In these past nine years, more than 3000 experts and professionals in policymaking, business, and academia have contributed their insights, upholding the mission to “Concentrate on Asia, Focus on Hot Issues, Congregate Elites, Promote Interactions, Enhance Cooperation and Seek Consensus.” Shanghai Forum is an international platform with an increasingly significant influence. By providing opportunities for constructive exchanges and interaction, Shanghai Forum seeks to be a positive force for broadening horizons and contributing to Asia’s development and prosperity.



## Shanghai Forum Media Briefing

Shanghai Forum Committee hosted a media briefing on 4th of July, 2014 to summarize the media cooperation of this forum and announced the new vision of next year at Fudan University. Members of Shanghai Forum attended the media briefing including Professor Liu Chenggong, Vice Chancellor of Fudan University, Professor Chen Yinzhang, Secretary- General of the Shanghai Forum Organizing Committee, Advisor to President on International Affairs, Mr Xiao Sijian, Director of Publicity Department of Fudan University, Professor Zhang Yi, Director of the Shanghai Forum Organizing Committee. Also a few media representatives were invited to the briefing such as Oriental Outlook, Wenhui Paper, Jiefang Daily, Morning Whistle, CBN, International Finance News and Phoenix Satellite Television.

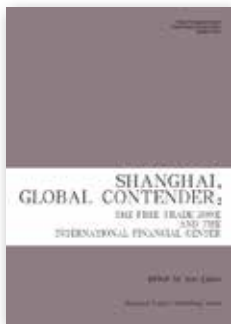
Vice Chancellor Liu Chenggong expressed his gratitude to all the media who supported Fudan University and Shanghai Forum continuously. He pointed out that over the past decade, Shanghai Forum had been committed to the strategic and policy research both serving the decision-making of the government and providing insights

of hot issues that made great contributions to national and regional development. Next year is the decennial for Shanghai Forum marking its significance of heritage. All the media are welcomed to offer any suggestion to Shanghai Forum in order to make it better in the future.

The representatives of each media then discussed with the host on forecasting trends and themes of 2015, and made many pertinent comments and suggestions. In the end, the two sides agreed to further strengthen cooperation hereafter.



## The Research Production: *Shanghai, Global Contender: The Free Trade Zone and the International Financial Center*



In May, 2014, Financial Research Center of Fudan Development Institute published the new book written by English entitled by *Shanghai, Global Contender: The Free Trade Zone and the International Financial Center*, which mainly concerns on construction on Pilot Free Trade Zone and international financial centers for Shanghai. As being one of a series of academic products

for "Shanghai Forum 2014", the book is compiled by both Financial Research Center of Fudan Development Institute and Shanghai Forum, and released by Shanghai People's Publishing House.

The English version of book consists of two parts, where the first part is special research on China (Shanghai) Pilot Free Trade Zone (CSPFTZ), and the second one focuses on research on international financial centers. In

particular, there are four special subjects in the first part as follows: Enlightenment from TPP to the Construction of CSPFTZ, Offshore Banking Risk Management in CSPFTZ, Comparative Study on Open Policies in Six Fields of Service Industry in CSPFTZ, and Strategy Research on Improving the Competitiveness of the Trade in Services in CSPFTZ from the Perspective of Financial Support. Meanwhile, in the second part, the book introduces comparative research on international financial centers like New York, London, Tokyo, Frankfurt, Singapore, and Hong Kong, and then gives special subject research for international financial centers including: (1) Construction of Shanghai Financial Center, RMB Globalization and Restructuring of International Currency System; (2) Where Should Informal Finance Go? (3) "Financial Center Revelations" Column of International Finance News.

With both theoretical research and financial think tank, this book sheds light on construction on Pilot Free Trade Zone and international financial centers in Shanghai.

## Opening Ceremony Addresses



■ **Yang Yuliang**  
President, Fudan University, China

As time marches on, we keep our promise to hold the annual Shanghai Forum in May providing with new perspectives toward political and economic hot issues during past nine years. We are dedicated to propel Shanghai, China and even the entire Asia forward with all our efforts through retrospecting past experience and rethinking current situation. This year, we themed Shanghai Forum “Asia Transforms: Identifying New Dynamics”, coinciding with Boao Forum for Asia’s theme “Asia’s New Future: Identifying New Growth Drivers”. In my view, it indicates that academia, politicians, entrepreneurs and media across the world attempt to recognize a correct solution by trials but all of us are anxious about the failed ones. Everyone is looking forward to new dynamics for Asia transforms, however, should we consider seriously the following questions: how much should we pay for identifying new dynamics? If we could give up the old development patterns, is it possible to find a perfect substitution under the dilemma of current transform? It is exactly of great significance to reform. Because reform never means an overnight process but a long process of trial.

I would like to take this opportunity to discuss following issues with all of you attended, including how we confront new changes and challenges due to Asia’s economic restructuring under the background of economic downturn, social conflicts, territorial disputes and the rise of populism; how we further help build regional common market for Asia countries to share resources and strengthen cooperation; how we settle relevant disputes

through amicable negotiation and seek common and stable ground for Asia’s overall development. This forum will involve relevant issues on transforms such as The Chinese Economy at Crossroads: End of Hyper Growth, Structural Transformation of the World’s Economic Growth and New Challenges to Asia, Financial Innovation and Stability, New Perspectives in Asia-Pacific Cooperation, Policy Guidance for International Metropolis Development: Innovation and Wisdom, The Changing Labor Market in Asia, Upgrading Urbanization and the Future Cities, Innovation Path to Sustainable Development for Environment and Health System, Approaching Inclusive Development: Green Energy Transformation and Environmental Climate Governance and so on. Ladies and gentlemen, as the theme interpretation says, we should establish new cooperative system as well as common value and effective agenda to realize Asia’s peace, cooperation and development.

All we need is more chance to speak out, to communicate with each other for better understanding especially under the circumstances of increasingly complex global governance trend, which is what my colleagues and I are taking great efforts to create for everyone.

At last, I sincerely wish all the distinguished guests could acquire innovative ideas, meet new friends, have good time and make happy memories here in Fudan, Shanghai, China.

*( Edited from a shorthand record )*



■ **Park In-kook**

President, Korea Foundation for Advanced Studies, Republic of Korea

The international community has coped with an unprecedented inundation of various global crises since 2008. However, it is too early to say that the turbulent waters have subsided. That's why we are gathered here with the expectation that we will come up with a new dynamic driving force.

We find ourselves at a very critical moment in time, which is marked by transition and uncertainty. Asia, in particular, is experiencing an unparalleled level of uncertainty over whether the current historic record of economic development can be sustained or not. In this sense, I'd like to invite your special attention to the "Asian Paradox": that is Asia's increasing prosperity at the heart of global economy, while being challenged by pronounced regional tension.

On top of that, we are faced with the unpredictability and anxiety over global power transitions, which may trigger a new Cold War era in Asia. What makes the current situation different from the past Cold War, however, is the willingness of both the United States and China to take on new initiatives to address such challenges.

China introduced a new term of its own called a 'New Model of Great Power Relations'. This is a unique attempt by China defining its own version of desirable China-US relations, perhaps for the first time.

Ladies and gentlemen,

This year's theme, "Asia Transforms: Identifying New Dynamics," includes some vital topics for Asia's future direction. Among the topics, Asia's financial sector seems to be one of the key areas in Asia's new dynamics. Let

me remind you of the Shanghai Forum 2012 keynote speech by Deputy Managing Director Zhu Min of the IMF. He eloquently expounded that the level of financial transactions in Asia is surprisingly low, in stark contrast with astronomical amount of trade volume and economic capacity of this area. The financial sector of Asia needs to be revitalized and innovated to match the leading role in the world economy.

In this sense, regional integration in Asia continuously deserves our attention in envisioning the future of Asia. When Jean Monnet proclaimed European integration in the early 50s, nobody imagined that 28 European states will constitute a single economic bloc under the name of European Union in five decades. EU is struggling even now with the Euro Zone crisis and further integration crisis but Europe will provide invaluable lessons for Asia's future integration process, whatever form it may take.

As another key agenda for New Dynamics, I want to say a few words on the fact that China's middle class is expanding through rapid urbanization, which is expected to strengthen China's domestic consumption market and ensure sustainable economic growth of China. The urbanization issues are also closely linked with the environmental and public health crises as well as various social issues. I hope the related panels will not hesitate to dig deep in addressing crucial challenges in urbanization and provide valuable insight.

China and Korea have both transformed themselves from foreign aid recipients into major donors in international society within a span of one generation. The two countries should join hand-in-hand to bring about co-prosperity and sustainable development of international



society. I am also very pleased that there will be a special session on corporate social responsibility (CSR) this time, to be led by SK Group. We cannot overemphasize the constructive role of social enterprises and responsibility of firms in our society.

Distinguished guests,

During the Tang and Qing dynasties, China has always been the central theatre for cultural and academic exchange of the world at that time. Rather than merely pursuing its own prosperity, China has invariably upheld the value of knowledge as well as sharing it with its neighbors. In pursuit of this honorable tradition, I'm sure China will pay increasingly more attention to making contributions to international society by building its soft power as a common value in the world.

有道是“十年磨一剑”，明年上海论坛即将迎来十周年。“山积而高，泽积而长”，我相信，未来上海论坛在引领亚洲经济、政治、社会和文化的发展方面，一定能够独领风骚、独占鳌头！

( Next year will be a markable year for Shanghai Forum after ten years' preparation. As a saying goes, Rome was not built in a day. I believe that Shanghai Forum will be able to be the pilot of Asian development in economy, politics, society and culture in the future! )

习近平主席在演讲时曾提到一句话，那就是“亲戚越走越亲，朋友越走越近”，真诚期待韩国高等教育财团与复旦大学越走越亲、韩国与中国、亚洲与世界越走越近，全球合作越走越和谐。这是我们上海论坛的梦！

( President Xi Jinping once said in a speech, “only interaction can bring friends together”. I am sincerely looking forward to seeing Shanghai Forum bring KFAS and Fudan, South Korea and China, Asia and the world together. Because we share the same dream in Shanghai Forum. )

Thank you.

*( Edited from a shorthand record )*





■ **Han Seung-soo**

Former Prime Minister, Republic of Korea

Asia has been more of the beneficiary of globalization in the past but from now, we have to seriously think of how Asia, particularly China and Korea, can contribute to the development of global economy during the process of rapid globalization in the future. In order to contribute to the world through the globalization process, Asia has to transform and identify new engines of growth.

Asia accounted for 29 per cent of the global GDP in 2010 and this is projected to increase to 39 per cent by 2020 and 51 percent by 2040. It is projected that China will account for 23 percent and India for 16 per cent of the world GDP by 2040.

This rapid growth would be possible only when there is a great transformation and new growth dynamics begin to work in Asia, particularly in Northeast Asian countries. Within a span of some two generations, Northeast Asia has risen from the scourges of poverty and vestiges of wars and conflicts to emerge as one of the principal economic engines of the world economy. The combined GDP of three Northeast Asian countries accounted for 21.1 percent of the world GDP. These countries belong to the big 5 of technological innovators in the world together with the US and Germany.

At the same time, Asian countries belong to the large carbon dioxide emitters of the world. China is the largest emitter with 8,715 million metric tons, India the 4th, Japan the 5th, and Korea the 8th in 2011. What we need in the future is not just a fast growth but a fast clean growth. We also want a socially inclusive growth. Without transformation and new technologies, clean and inclusive growth would not be obtainable.

At the same time, economy is affected by politics

and economic relationships are often conditioned by the international political situation. In this respect, Northeast Asia's regional political relations are, regrettably, not so encouraging at this juncture. Without the peace that Northeast Asia has now long enjoyed, the unparalleled economic growth of the region might not be possible. Were we to succeed in sustaining the economic prosperity in the region, the crucial goal would have to be the firm establishment of peace regime on a foundation of mutual trust and respect. Healing the wounds of history and achieving a genuine reconciliation is a challenge China, Japan and Korea have yet to overcome, if we are to move forward to build a common peace and prosperity in the region.

Despite the unprecedented economic dynamism that now characterizes this region, there are, of course, some pressing issues that require concerted effort and future-oriented vision. I would like to mention two in particular. First is how to strengthen multilateral cooperation on expanding regional free trade and to further promote market economy through structural reforms. The second is that we have to work hard for a multilateral governance structure to deal with supranational, cross-border issues such as climate change, water, energy and food on which the future of humanity so critically depends.

Shanghai Forum once again for having played an indispensable role in furthering intellectual cooperation in Asia and in seeking for an Asian model for development. I am sure that it will continue to play an increasingly important role in mobilizing and stimulating the intellectual communities of Asia.

*( Edited from a shorthand record )*



### ■ Fang Jun

Deputy Director General, Department of International Cooperation and Exchange, Ministry of Education, China

While deepening economic globalization, the whole world is also facing a series of intricate issues and challenges at present. In order to settle all the issues and challenges, we need mutual respect, close communication and win-win cooperation, so as to form a community of destiny. In response to today's global situation, colleges and universities are supposed to play a bigger role in undertaking common challenge, shaping the future of inter nation relations, and promoting the development agenda of human society.

As talent pool and think tank of social development, our colleges and universities call for ability to correctly determine the underlying trend and direction of development of the international situation. Meanwhile, colleges and universities should grasp this golden opportunity with pioneering strategic insights to conduct conversations between China and foreign countries in all fields. On the other hand, we should take initiative to approach major theoretical and practical issues especially critical strategy and policy, and to do all-dimension, forward-looking and predictive research as more scientific supports for national governance. In a word, colleges and universities are given the mission of serving the society and propelling human development forward.

The content of scientific research, like experience and future challenges in Asia's development, is of great significance to academic innovation and social progress. So far, we have accumulated great amount of experience about the development of Asia and Shanghai as well. We know this is far more than enough and we should keep motivated and retrospect current issues up in the air continuously. Since the theme is "Asia Transforms: Identifying New Dynamics", we hope to open this great platform to all the suggestions for pushing the entire Asia forward into sound and sustainable development. I believe the 21st century belongs to Asia, in other words, Asia's development and rising plays a decisive role in

global future development. Thus Asia's ideal prospect is not only closely tied to support from each country, enterprises and organizations but to all the wise and academic support from expertise and scholars. We firmly believe Shanghai Forum will be able to pursue coexistence in diversity and achieving harmony in pluralism.

The Ministry of Education has been leading calls for that universities are supposed to initiatively strengthen international exchange and cooperation based on academic research by applying various platform and channels to promote cross-disciplinary interaction to the outside world. Therefore, higher education is bound to be more open to serve the overall interests of the world and to make new contribution to build a prosperous and harmonious world.

Fudan University, as a cradle of thousands of talents in a century, has made outstanding contribution to Asia's human development and social improvement. We really hope such Shanghai Forum with a galaxy of talents be capable of attracting and inspiring brilliant ideas and play a leading role in academic and cultural exchanges between China and other countries. In short, we would like to take this opportunity to promote communication in all dimensions with the whole world.

This time we will concentrate on problems and challenges sharing by Asia and the whole world and have a free and open discussion on a few selected issues. The attendees all over the world are welcomed to air their views in five main sessions including economy and finance, politics and law, city and society, environment and energy, and round-table discussion. It is believed that all the discussions and insights are bound to help improve the development of Shanghai, China, Asia and even the whole world.

*( Edited from a shorthand record )*



■ **Tu Guangshao**

Executive Vice Mayor, Shanghai Municipal Government, China

As the pioneer city of applying China's reform policy and scientific outlook on development, Shanghai has played a leading role in realization of China's economic development model innovation and demonstration of economic structural transformation. Since the reform and opening up, Shanghai has maintained a rapid and sound development, even if suffering tremendous pressure by the overall decline in the first quarter, it has kept a stable growth of 7%. All should be owed to the following three strategic policies as guidance to major transformation of Shanghai's economic structure:

The first policy is "adjusting" including economic structure and methods. In recent years, Shanghai has intensified structure adjustment while highlighting the advanced manufacturing and service industries. In this way the proportion of service industry has been up continuously and grown much faster than manufacturing. Meanwhile, the growth of strategic emerging industries is more rapid than general ones. The first policy has achieved initial success since then.

The second policy is "expediting" reform comprehensively. By virtue of the reform program to replace the business tax with a value-added tax since 2013, Shanghai has actively facilitated the transformation of service industry and government function for boosting the market. In the other hand, state-owned enterprises have also been pushed to reform in order to stimulate the vitality of the market for a steady economic growth.

The third policy is "innovation". Under the guidance of innovation-driven transform and development, Shanghai has increasingly encouraged the independent innovation of market and enterprise, which offers a great help to the steady economic growth in Shanghai together with emerging new business models.

In the process of reform and opening up, Shanghai is always a pilot of deepening reform in pursuit of innovation-oriented ideal. Shanghai Free Trade Zone is a perfect example to prove that. Also Shanghai FTZ aims at being the focus of China's upgraded economy. As President Xi Jinping said, "Shanghai should take initiative and take action with a bold attempt to establish a series of regulations that can be copied and popularized as soon as possible". The core of Shanghai FTZ is system innovation, but the key is to boost the market and handle the relationship between the government and the market. It is supposed to play a demonstrative role in accordance with international practice. So far Shanghai FTZ after eight months' preparation has achieved some feasible innovations in such aspects as follow.

**1. Transformation in investment.** It mainly focused on establishing a negative list. Last year, the negative list 2013 was launched to improve the system of free trade zone especially giving great benefits to investment. Now the negative list of this year was shortened and maintained only one third of the original one. Also it will further enhance the transparency of the system.

**2. Transformation in trade facilitation.** Service trade facilitation in particular is improved considerably.

**3. Transformation in financial system.** Since the FTZ started, the relevant national authorities, the People's Bank of China and three regulatory administration sectors have issued a series of policy frameworks depending on the demands of investment and trade facilitation for financial services. Some relevant rules and specific operational methods are also beginning to be released in stages. All of these measures are going to benefit especially entity economy providing with better and proper financial services.

#### 4. Regulatory system both in the course and afterwards.

The government needs decentralization for boosting the market; on the other hand, it is still supposed to keep its administration function in the establishment of the FTZ. Thus a series of regulatory system is in need in the course and afterwards that can be promoted and copied by others. So far six main mechanisms have been established including security censorship, anti-monopoly review, social credit system, release system of corporate annual reports, information sharing and integrated law enforcement, social participation in market regulation. Shanghai FTZ has achieved success in some degree through unremitting efforts but still a lot of way ahead.

Shanghai Forum 2014 has undertaken great responsibility for inspiring transformation and promoting establishment of Shanghai FTZ system. To some extent, it is supposed to contribute to China's economic development as well as Asia transformation.

*( Edited from a shorthand record )*



## Opening Ceremony Keynote Speeches



### ■ Robert J. Shiller

Sterling Professor of Economics,  
Yale University, U.S.A ;  
2013 Nobel Laureate in Economics



In 2003, I wrote a book called *The New Financial Order* and in 2012, I wrote a book called *Finance and the Good Society*. The “good society” is a kind of human society we’d like to live in. And the theme of my most recent book is that finance is actually a pillar of civilization.

But the corrupting influences of control of money and a well-functioning financial system requires adequate regulation and a strong legal framework.

#### **Finance a pillar of civilization**

Finance is intimately linked with humanity’s pursuit of a good society. Financing is about enabling human activity and its functions are deeply integrated into the fabric of our societies.

Just like anything important that one wants to do, depending on some long lasting organization, finance is a long project involving lots of people. It is a technology for sorting out the costs and benefits of projects, and creating organizations that go beyond one human life and last for centuries.

#### **Corrupting power of finance calls for regulation**

Unfortunately, there has been a popular prejudice held against finance that most people think that finance is just gambling. And one reason why people often think that finance is useless or it’s just a corrupted game

is that they have the impression that financial crisis are crazy just like people playing a game of dice. And though there is still a role for financial market because finance does have very concrete and important functions and these prejudices are far from covering the entire truth, I think that is of some truth to that.

Financial institutions deal with so much economic power that it generates opportunities for people for corrupted activities. Therefore, it highlights the vitalness of regulation. While both government regulation and industrial regulation are costly, so that we need to do some costs and benefits analyses, nonetheless regulation is essential because of the tendency for corruption.

And we need lawyers because people don’t think that they can get the law enforced properly. If people do not believe in the law, they are a lot less likely to start businesses.

Since it gives an idea about the strength of the legal system in a country, it hints at the ability to withstand the corrupting aspects of finance. As for personal financial advisors, actually there is no country does well for now. And I think we need more of them because if people don’t understand what they are doing, these systems are so important and complicated that you would need someone to explain them to you.

Corruption springs to life even among those advisors, so I think we need government subsidies for financial advice, legal advice and regulation.

#### **China should continue to experiment**

China is going through a number of steps. But some of these steps are quite recently, which suggests that they are not fully implemented. As China develops, it has to get more and more close to the forefront of financial innovation, and that means experimentation. The target is constantly changing especially with new information technologies like the Internet, and China should be, or is, already a part of this process

#### **Important role of alternative forms of finance**

For example, the sub-prime mortgage was a financial innovation which allows people with poor credits to get home mortgages. Sub-prime mortgage is issued by the so called shadow banks. Now, we have seen the shadow banking developing in China. It sounds evil, but it's not and I think it does play a proper role.

There are several recent innovations which I think had showed a lot of promise, such as benefit cooperation, crowd-funding and social impact bonds. The benefit cooperation is a new cooperated firm that is halfway between for-profit and non-profit. I believe it's very respectful of people feelings that people want to have a purpose beyond of making money. And those crowd-funding websites allow people to invest in companies. These things would grow up further and finance will become more and more internet finance and global, and less driven by traditional banks.

#### **The importance of philanthropy**

I think that a culture of philanthropy is a power of free market system. The real problem is that the free market economy will make some people fabulously wealthy. But what to do with all these money? It is a problem for China.

In order to make a philanthropic feeling stronger, it is important to have a tax system that involves charitable deduction. You can have marginal tax rate for those high income people, but also give them high charitable deduction. And China has apparently weak charitable deduction right now. It has to be more allowing people to be creative in their philanthropy.

#### **Behavioral finance**

Finance is going through a revolution now because of the development of behavioral finance that is psychology applied to finance. And people are not machines or computers, they have feelings and higher aims, they are psychological. So we have to improve the functioning of our financial system. It means getting the financial system more involved with people, making it clear to the people how can they achieve the highest aims. It involves experimentation.

I think "identifying new dynamics" means first experimenting, then having some mistakes, then working around to the potential for corruption, and then watch what other countries are doing. It's a very slow process of identifying new dynamics, so what we have to do is not do it all by ourselves, we have to set up a system that encourages other people to do it.

Thank you.

*( Edited from a shorthand record )*





■ Adam Posen

President, Peterson Institute for International Economics, U.S.A



A technological slowdown in the west would mean higher convergence between the world's technological front-runners and countries like China that are catching and would have a number of consequences for the global economy. If the relative size of the American economy is reduced in this process, the US would be less able to stabilize the world economy and less willing to provide the same level of protection of intellectual property rights. Going forward, this could lead to a 'bumpier' world, but might also lead to increased financial and trade globalization, to the continued benefit of Asia and the world.

#### Is innovation slowing down?

The world is not facing a complete stop of innovation. But while areas such as 3D printing and genomics do show some potential as possible breakthroughs, a number of scholars suggest that the rate of technological progress is about to slow down or may already have done so. We have no guarantee that a next "big thing" is around the corner in technological innovation.

A possible indicator of a technological slowdown is a trend that is currently being observed of slower corporate investment in the developed world. Cash-rich companies are choosing not to invest because, they seem to think that "there's nothing worth investing in out there" and they are pessimistic about returns. But this excessive unwillingness to invest is also a way to protect themselves for the future and a result of the strict monetary policies in the wake of the financial crisis.

#### Convergence of innovation front-runners and those behind

As the frontier slows down, the ability of the frontier countries to maintain protection of intellectual property rights, to maintain its piece of innovation diminishes. Its relative strength in a sense declines. The technological barriers that it can put up reduce. At the same time, the ability of the periphery countries to reverse engineer and catch up increases.

In that such a world, it is that much easier for the periphery to catch up- call the periphery China. In such a world, if we make a very simple-minded political assumption that country is like the US and getting scared when others do well. It is a world where the Federal Reserve say is less able to smooth out the fluctuations in the world because the relative size of the economy compared to the rest of the world is shrinking.

#### A 'bumpier' world

We are in to a world of somewhat greater volatility. To a first approximation, I would argue you are moving to a world of greater volatility because the one large pull is less able to stabilize the economy of the world just through its own actions.

In such a world, the US are likely to become more reactive to this and worry about it and be less providing of global public goods be that security of the seas, intellectual property right protections, and a variety of things. In other words, as the frontier slows down, the ability of the frontier countries to maintain protection of intellectual property rights diminishes and their relative strength declines.



As the frontier countries would have less power to protect their intellectual property rights, companies in these countries might feel less incentivized to stay ahead and keep innovating, while the “catching up” countries would find it even easier to converge with them. A faster convergence could thus become self-fulfilling and even accelerating.

A consequence of a less clearly defined power structure in the economic world order would likely lead to a bumpier version of globalization than what we have seen so far. We could be seeing more conflicts and less clear answers about how to solve them, as the world’s economic power relations become more ambiguous.

#### **Increased benefits to be derived from structural reform**

In such a world, the benefits of structural reform become all the larger. You are not getting exogenous innovation at the same pace. You are not necessarily getting the technological leap-frogging so there for what you gain for a two to 10 year period from engaging in structural reform is much larger compared to your growth rate than it used to be. So the benefits of structural reform, particularly in the rich countries and the technological frontier countries, go up.

Does this mean structural reform is more likely? It is unclear. It depends on which model political economy you have. One model would tell you it becomes harder because in a world of slower growth, people are fighting more for their positions, are more resistant to change. There is less ease of side payments to cause people to change. They could become more pessimistic. You also could become more optimistic that structural reform in a world of greater competition between nations and where structural reform has a greater impact- at least in absolute facts there is more gains to be given out. It is not clear. I leave that to the geniuses of political economy in the room to figure out.

#### **Positive outlook for investment and trade globalization?**

It is also possible that you also have a more oligopolistic world, because there is not technological change at the same pace. One source of disruption, one source of competition of new entrance is being reduced. That again gives you money accumulating in frontier country corporations with no place to go. So one could imagine with minor additional assumptions that this leads to a surge in outward investment, in pursuit of direct investment, in the periphery economies further moving exchange rates, further transferring wealth, further

changing the balance of trade.

Would this be as welcome as it once was? It is an interesting question. If the countries are still converging on the frontier then they still have technology and technology writ large managerial practices, services, rights and indications to learn from these foreign direct investments from the richer countries but perhaps, if the rate of convergence is faster, this is less necessary.

#### **Globalization: a positive thing for Asia**

This may be a bumpier globalization, one where the large economies. From the frontier technological country point of view, trade now becomes even more of the lifeline. That is where the growing markets are. That is where the only investment opportunities are and you have to pray that your intellectual property rights or, for that matter, your straight-on property rights when you invest abroad, are respected. From the periphery conversion countries, it is not as clear but I will sound an optimistic note from my theory.

We have a word, where it is the case here in China, there has been incredible catchup with incomes in people’s lifetimes, visible improvement, creation of new middle classes not just here in China, of course, and that is likely to continue and so, in some sense, the backlash against globalization that previous generation of scholars worried about I think is reduced in this kind of world because there are so many new middle classes and people who are in favor of globalization in the emerging market and the ability of the developed country resisters to stand up would be diminished.

*( Edited from a shorthand record )*





### ■ Michael Grubb

Professor, International Energy and Climate Change Policy, Institute of Sustainable Resources, University College London(UCL);  
Editor-in-Chief, Climate Policy journal, UK



### Introduction

The organizer asked if I could offer some thoughts about how some of the ideas presented in my book *Planetary Economics* might apply in the context of Asian transformation and identifying new dynamics for Asia, the theme of this year's Shanghai Forum. I want to offer this conference three broad propositions. The first being that energy and associated environmental impacts pose crucial challenges for Asian development. Secondly, some of the insights and understandings of the economic structure of this problem also might help in thinking about aspects of the development process. Finally, when you put those two things together, we can recall the old saying that every crisis or every challenge is also an opportunity for addressing multiple problems. So the start is constituted of a great deal of pessimism, I hope to conclude with some optimism.

### Risks

First I would like to give a high-level summary of one basic lesson in the energy world is the international fuel market and particularly oil have been and always consist of volatile commodities. Global oil demands after the oil shocks in 1970s actually pretty much stabilized in most of the world except for Asia which has accounted for most of the growth in global oil demand. There is little dispute that the 1970s oil shocks had a major impact on economic growth and there is not much dispute that there has been a correlation of major changes in oil prices and global growth.

Then I would focus more upon the climate change challenge, and a very basic question, a subject to numerous economic debate for twenty years, is how

serious is climate change and what are the cost of CO2 emissions? I think a central point to offer here is it all depends on how wide your scope is in terms of the kinds of the changes you are thinking about, how you see the future and how you treat risks and diversion. You can think the world will only get a little warmer and that the sea level will rise a bit or you think like certain scientist that climate change will lead to major structural changes. And the things we are trying to measure and think about are what impacts climate change would have on markets, non-market costs and social stability. And what emerges is a pretty depressing conclusion that the costs could be very high. So the conclusion is: don't believe anybody who says they know what the social cost of carbon really is.

This challenge includes risk management at very uncertain circumstances, and what is the real consequence of climate change and how do we evaluate that, how do we act, how do we coordinate responses? And a moral philosopher wrote an article called *the Perfect Moral Storm* because it combines questions about how we value not just ourselves but nature around us, other people and other countries, future generations. And we haven't been doing very well in solving the problem. The emissions have been increasing over the last decade faster than several decades before. We are certainly finding more oil, but the marginal barrel is being sought under more complex environment through more sophisticated technology which is neither cheap nor necessarily secure. And when local pollution becomes more regional as a big headache and then affects in a global way, we just do not know who really have to solve it.

## Insights

As I suggested, in the second proposition there are insights that could be quite useful more broadly. According to Bashmakov, the amount of money that countries spend on energy has been surprisingly constant as proportion of GDP for more than a century in most countries despite huge variations in the energy price. This results from the fact that higher prices are usually followed by less consumption, but why? It can be explained through factors as energy efficiency and innovation. In economic models actors are optimizing so that there exists a best practice frontier, in reality every entity is somewhat short of the frontier. Why do so many people waste energy in the real world? We don't wake up asking ourselves "How am I going to optimize my energy efficiency today", instead we show so-called satisfying behaviour.

So how fast and in what direction will the frontier move? Can it move towards transforming behaviour to transform energy systems over time? To transform systems we need strategic investment to deliver innovation and to cause the evolution of complex systems. Only half of economic growth can be explained by resource and capital accumulation, so what is the dark matter of economic growth? Two barriers explain this behaviour, one is that policies, legal and cultural developments prevent actors from moving closer to the best practice technology frontier, the other is the investment and infrastructure and global institutions that help the frontier to move faster.

## Opportunities

Bringing these things together offers important opportunities for tackling multiple problems. And I would like to offer three perspectives on the three domains. The first domain is the century of 'western' development and associated evolution of economic thought. This domain includes the centrality of property rights and institutions and the development of markets in eras of abundant natural resources as economies of scale. The second is the analysis from energy system dynamics and environment which includes the evolution of complex network-based technologies and infrastructures, encroachment of 'externalities' and economies of learning-by-doing and path-dependence. The final perspective is the intellectual perspective on Asian development where rapid development and globalization intermingles the domains. In Asia all three domains are happening almost simultaneously, rapid globalization, and rapid catch up and rapid innovation. The faster the frontier moves the more it pushes decision makers to be connected with the

evolution of the new frontier.

In the middle of the century the global economy could be anywhere. Innovation will have influence on that growth and is a big part of it. We are now dealing with the consequences of exertion of resources. We have to deal with the structural choices of whether we want higher or lower carbon emissions. Will we choose higher capital costs but lower pollution or will we choose the so-called brown economies with lower capital costs but higher pollution. Which we want, which we go for is a strategic choice and mostly a key strategic choice that is facing the Asian economies.

Thank you.

*( Edited from a shorthand record )*





#### ■ Sha Zukang

Former Under-Secretary-General for Economic and Social Affairs, United Nations; Honorary Dean, Institute of International Studies, Fudan University, China



A few years ago, when Asia was growing at a faster pace, with some countries in the region growing at a double-digit pace, the world was excited about it. There was much talk about the 21st century being the Asian Century. Indeed, compared to the rest of the world, Asia's robust economic performance over the past three decades, made a strong case for the emergence of an Asian Century. Although Asia had its weak spots and setbacks, the momentum and impact of Asia's rise was even more tangible following the onset of the world financial crisis in 2008.

With Asia being the engine of growth for the world, there was increasing discussion about the distribution of power on the planet shifting to Asia. One or more of Asian countries, it was argued, would assume global leadership in diplomacy, in science and technology, and in soft power. China, of course, was very much at the centre of this debate.

However, with China's growth slowing down to 7.5%, and India's to about 4.5% in the last couple of years, we began to witness a fall in enthusiasm over the Asian Century. There seems to be concern, if not alarm, over whether the uninterrupted and seemingly unstoppable growth of China is finally running out of steam. It has become fashionable to show skepticism about emerging economies, the BRICS in particular.

Diversity of views is healthy; and I think hitting the pause button and reflecting over the past is healthy. But I don't share the fashionable skepticism about China or Asia. Let me just give you two reasons, among others.

First, recovery is now seen in a growing number of high income economies, even though it is uneven and the

effect of the crisis and the subsequent recession lingers.

Second, Asian economies are resilient and governments in the region are coming to grips with policy shortcomings and structural problems.

Indeed, the IMF, the World Bank and the United Nations all see stronger growth prospects in Asia, with growth in the region projected to reach about 5% and emerging Asia about 7% this year and next.

So, does that mean I assume that Asia's economy will be trouble-free? No. I think Asia, and of course China, do face impediments. The region must seek transformative changes to overcome these obstacles. Let me elaborate.

#### **First: the challenge of manufacturing upgrade.**

With rising factor costs and eroding competitiveness, these Asian economies, including China, face the daunting task of making the leap to the next stage of growth – growth that relies on innovation, resource efficiency and higher productivity.

#### **Second: the challenge of sustainability.**

Despite the financial crisis, the increase in economic wealth has been accompanied by unprecedented threats to the ecosystems and to the natural environment. As is publicized, some of the most polluted cities in the world are found in Asia. But there is more to this worrisome state of our planet, which brings me to the third challenge: the challenge of inequality.

Inequality has been on the rise. Income inequality in developed countries is at its highest level for the past half century. The average income of the richest 10% of the population is about nine times that of the poorest

10%. The income inequalities are replicated in access inequalities.

### Solutions

Asia's rise will almost certainly not be smooth. There will be ups and downs along the way. How countries navigate through them will decide if Asia rises or gets stuck in the middle income trap.

With each successive crisis, Asia has demonstrated a growing capacity to manage crises. I am therefore confident that China and other Asian governments will be able to tackle these challenges through enhanced resilience to external shocks.

Before I conclude, let me flag some ideas as possible approaches to the three challenges.

#### First: investing in human capital.

To overcome the manufacturing challenge, Asian economies must make more efforts to upgrade their human capital. Successful Asian economies are manufacturing-based economies that have relied on human capital to transform their economies, to move up the technology ladder and the value chain.

#### Second: investing in sustainability.

We need to launch a new industrial revolution – the sustainability revolution that will disrupt our dependence on resource consumption. If we fail to improve resource efficiency, we will spend much of our future years dealing with tensions arising from resource consumption, such as energy insecurity, water scarcity, climate change, waste, pollution, etc. A sustainability revolution is no longer optional. It is a must now.

#### Third: addressing inequalities.

Asian countries must emphasize inclusive and sustainable economic growth that directly addresses inequality, through macroeconomic and fiscal policies that bring about real income gains for the poor and vulnerable.

Growth must be inclusive. To sustain growth over the long-term, almost all Asian countries must give much higher priority to inclusion and reducing inequalities. Inclusive growth must not only address poverty, but also deal with aspects of equity, equality of access and opportunity, generation of employment and provision of protection to vulnerable groups in daily living.

### Conclusion

By now you may have noticed that I am advocating a sustainable development strategy for China and Asia. The 21st century will be an Asian Century only if countries in the region are capable of making transformative changes and pursue sustainable development.

I am fortunate that in the latter part of my public service, I have had a chance to work on sustainable development. Without sustainable development, there will be no lasting peace, security or development. Sustainable development is the foundation for peace, security and prosperity.

As we engage in our daily business, it will be beneficial for us to pause and look beyond our individual, immediate horizon ... and ask: Are we, as a global community, on a sustainable track? Will China and Asia be capable of making the transformative changes?

Thank you for your attention.

*( Edited from a shorthand record )*



## Closing Ceremony Speeches



■ **Kim Beom-Jung**

Director, China Research Center, Korea Maritime Institute, Republic of Korea



Founded in last September 29, China (Shanghai) Pilot Free Trade Zone is the outcome of structural reform policy of Chinese government to promote trade and investment. Shanghai FTZ consists of four supervision zones covering 29 square kilometer. I think it is still too small in scale. Comparing to other FTZs, Shanghai FTZ does not allow business happen outside the zone after the enterprise is officially registered in it.

Then let me introduce the history and characteristics of South Korea's special economic zone. Primarily, the South Korean government has established a number of special export processing zones in coastal areas to further balance the payments. In 1970, the first free export processing zone was built up in Port of Masan, but was renamed as Masan Free Trade Zone in 2000. In order to improve logistics and trade policy, Port of Busan and Port of Kwangyang were established as tariff-free zones in 2002 while Incheon International Airport in 2003. The same year, the government integrated the tariff-free zones oriented with manufacturing and logistics into free trade zones. With these initiatives, South Korea's ports and airports have ranked among a hub port in Northeast Asia. In 2002, the Free Economic Zone was launched to attract foreign investment and facilitate balanced regional development, thus the government has selected Incheon, Busan, Chinhae and other cities as pilot FEZ but enjoying the treatment of special administration region, aiming at creating all-dimensional business and investment environment. In addition to manufacturing and logistics function, those areas also provide housing, medical care, education, tourism and other functions. So far, there are 13 FTZs and 8 FEZs in South Korea. It is also mentioned that the

major ports including Port of Busan, Port of Kwangyang and Port of Incheon can be divided into different free trade zones and free economic zones.

At present, around 60 free trade zones all over the world have similar features but own advantages. For example, the FTZs in UAE, US, Netherlands, and Singapore give benefits in such aspects as tariff reduction, manufacturing, logistics and warehousing, entrepot trade, however the FTZs in South Korea are able to provide better living environment for foreign investors. Shanghai FTZ also emphasized the growth of trade and business and attracting foreign investment. I was particularly impressed that it is also constantly dedicated to improve its financial system and service openness through transforming administrative system.

I think the key to successful free trade zones lies in: first, a specific objective is necessary in launching a free trade zone while extraterritoriality is needed to protect relevant business; second, a complete set of legal protection system is required in FTZ; third, the administrative institute in FTZ should have very strong management capabilities; fourth, each FTZ is obliged to issue some specific preferential policies that supports foreign trade facilitation, such as services, foreign exchange and information share. Moreover, a more efficient and convenient solution is required in customs supervision and management.

At last, I wish Shanghai Free Trade Zone a brighter future!

*( Edited from a shorthand record )*



### ■ Pansy Yau

Deputy Director of Research, Hong Kong Trade Development Council, China



**G**ood morning. It is my pleasure to be here as a panelist to join this session.

First of all, free trade zones are usually designated areas within a country in which trade, investment and business operations are free. And the objective of setting up a free trade zone is to encourage business activities and attract foreign investment. So, for Hong Kong, the whole territory is free, you can also see Hong Kong as a free trade zone for China as we are now part of China. But we are super, that's why we say we are a special administrative region. What is super? Because apart from the customs, you don't have to pay any custom duty, foreign companies are free to set up operation in Hong Kong, and every company including foreign companies can have 100% ownership and you are free to repatriate your profits back home. But on top of that, Hong Kong is special or freer because we have our own legal system, we are separated custom territory. And Hong Kong also plays a very important role as a trade and service gateway not only to the region but also to the whole world. And we are very successful in attracting foreign investment, because in terms of trade Hong Kong ranked number nine in world merchandise exports and of which 98% are re-exports. And for investment, Hong Kong ranked number three as a receiver of FDI in the world. And we are number two as a source of FDI.

Hong Kong is also a hub for many companies to set up their headquarters here and then transmit their investments to different countries in the world. You may also ask what makes HK successful. I would like to look at it from a macro-perspective and look at the trends of international trade. Today, international production, trade and investment are organized within the so called global value chains. In the very beginning, different stages of production process are located across different countries; this is what we call the production fragmentation or the process manufacturing. But more recently, there is also a strong trend that there is an international dispersion of services along the value chains like R&D, like marketing. In Hong Kong, as a trading hub, we provide a very good platform for these companies to manage their different processes in these value chains. I would like to use the example of the TCF (textiles, clothing, and footwear) industries, because all of you know China is already a very successful base for manufacturing these kinds of products, but actually, in more recently years, China is not only a base for production for export but also production for the China domestic market and helps in doing the design and marketing job. So it's not only an OEM but now doing more the so called ODM activities. Because for OEM, all the brands, all the designs are from the host countries from US, Europe, Japan and etc., but for ODM, production of the manufacturers in

China would also take care of value-added in terms of design etc. And also for production, though China has moved up the value chains to produce a lot of fabrics and filaments, but many manufacturers in China still need to import a lot of raw materials like cotton from India, wool from Australia, and also some high-end fabrics from Taiwan, Korea etc. And in the past few years, when we see the production process in China increase, firms are more encouraged to relocate some of the production to other countries in south eastern Asia to take advantage of the process manufacturing. As a result, you see a very complex web of value chains or supply chains in the world in this style.

As Hong Kong is playing a trade hub role, we provide a very sound business environment and service support to help trading companies operate here in Hong Kong to extend their sourcing network and to manage their divers supply chains. And services here is very important, because services are sometimes referred as a glue to put together all the supply chains and make sure that they are operated in a fluent manner. As the value chains is put apart and placed at different locations to look for the best solution, multinational companies or the lead firms of global value chains have to coordinate and integrate individual supply chains to shorten the delivering cycles. This is very important, because as I mentioned the trend of international trade is each company now has to manage many different supply chains, so how to coordinate them to make them efficiently and effectively, to respond quickly to the customer needs and shorten the delivery time is very important, because now the issue is not about lowering the production costs or increasing the product quality. How to manage the supply chains in an effective manner is the most important thing of supply chains management companies.

Many multinational companies have selected Hong Kong as a base to manage their supply chains network in Asia, the reason is that Hong Kong has a very good business environment with low tariff rate, very good IP protection, rule of law, economic freedom and of course, we have first class infrastructure to have the transportation connections of all their target markets in the region and world. And every companies come to Hong Kong are free to set up any business they want, and they can enjoy the clusters of services here to manage their value chains efficiently and effectively, and have the freedom or flexibility to develop or innovate new services.

Thank you.

*( Edited from a shorthand record )*



■ **Pauline van der Meer Mohr**

President, Erasmus University  
Rotterdam, Netherlands



I would like to give you a Rotterdam perspective, which will be, perhaps, slightly different from what we've been discussing so far. And my comments will be based on some of the work done by my colleagues at Rotterdam School of Management of the Rotterdam Erasmus University. And they do a lot of management research into "what makes a port effective?"

I was asked to comment on the free trade zone perspective, let me first begin by saying that free trade zones are not so popular of late in Europe, despite the fact that we have many examples here of successful free trade zones in Europe in the past. Actually, most of them are being dismantled right now or have been dismantled recently, and so was the most famous one that we had in Europe, which was in Antwerp. And the reason why these free trade zones in Europe are not so popular any more is that the regulation is becoming more and more stringent and that regulation has something to do with administrative and fiscal control of shipped goods. Arguably, one might say that the entire EU is now a free trade zone, but that only applies why you live within the EU, because if you're a farmer in Africa, you will find that it is not that easy to ship your goods to that so-called free trade zone in Europe.

So I would like to talk a little bit about free trade zone 2.0 and focus on new types of innovation such as custom control mechanism and safe and secure shipping lanes that make up the determinant of the successful new type of free trade zone and the key notion that I would like to use is the notion of strategic connectivity because that is the notion that will improve the trade flows between the port of Rotterdam and the rest of the world and hopefully, there will be some lessons to be drawn for China.

When I went to school many years ago, I learnt that the port of Rotterdam ranks number one in the world. And now, the top 10 ports in terms of growth rate of the world are mainly in China, the first to the 8th are in China and I think number nine is in Singapore, and Rotterdam will hold the 9th, 10th or 11th spot depending on the measures in quantitative terms. However, the competitiveness of a country is not solely determined by quantitative indicators, qualitative factors are probably as important as quantitative indicators are if you look at the competitiveness of a country.

Let's look at some of the qualitative aspects of a port that creates that competitiveness. And if you think competitiveness let's think about competitiveness in terms of world economic rankings, where the Netherlands in 2013 ranked number eight in terms of global competitiveness, and by comparison, China ranked number 29. One has to take into account that the Netherlands is only a small country with only 16 million people but still that very small country does rank number eight in terms of its world competitiveness. So what determines competitiveness? We find that the port infrastructure, the quality of the infrastructure actually make all the differences for the Netherlands.

So let's look a little bit of how do port contribute to the competitiveness of a country and what can government do to enable that competitiveness, and how can this strategic connectivity help us to increase the competitiveness of a nation.

So here are several recommendations from the research. First of all, increasing the strategic connectivity within the port area of Shanghai, secondly within China as a



whole and thirdly with international ports outside of China. A government has basically two instruments to improve global connectivity, namely investments and regulations. Investments are what the Dutch have done, the government invested highly and heavily in the port area. Regulations are mainly in the form of tax and customs regulations. For example, in 2007 the Netherlands introduced the “authorized economic operator certificates” (AEO), it’s like a self-help instrument that requires less control by government authorities once you’re certified. It saves time in international trade if you have less control.

But the real innovation comes when you begin to certify entire value chains, entire supply chains, as saw in the Hong Kong examples. That is when smart and secure trade lanes were introduced between Rotterdam and other ports in the world. You may argue what’s the difference between the Silk route and the smart and secure trade lanes. The Silk route, which had a major impact on the French fashion industry, is probably a predecessor of smart and secure trade lane; however it was neither smart nor secure. Since 2011, there is a smart and secure trade lane in place between Rotterdam and Shanghai. So the challenge is: to innovate beyond just an assumption of a free trade zone and that will increase the strategic value of the port of Shanghai and thereby China as a whole.

I have a few recommendations that were given to me by our researchers at the Rotterdam School of Management. If you connect the factors that determine competitiveness like factor conditions, demand conditions, firm contacts and supporting industries you will speed up innovation and increase the strategic connectivity between the gateways. And if you do all of that, you will increase the innovative driven competitive advantage of the ports of the two sister cities: the Shanghai port and the port of Rotterdam. And we will all be happy and live happily after.

Thank you very much.

*( Edited from a shorthand record )*





### ■ Jian Dania

Vice Chairman, China (Shanghai) Pilot Free Trade Zone Administration, China



China (Shanghai) Pilot Free Trade Zone is not a typical free trade zone even though it is similar in form, i.e., it is an area designated by the country which is certain and regulated. But that is not enough to be a real FTZ. Some functions are necessary to consider such as logistics, distribution, and industry and trade facilitation. Shanghai Free Trade Zone should be regarded as a pilot sector, of which the core is system innovation. In other words, the success of Shanghai FTZ is an indicator of governance innovation.

During the past seven months, the Administration has been busy in communicating with enterprises, government staff and media. So far, more than 200,000 people have visited the FTZ for consult and registration. The registered enterprises have exceeded 9,000, especially the ratio of foreign company, still increasing, has been increased from 4 percent to 10 percent. From my point of view, the statistics mentioned above is an exact proof to show Shanghai FTZ ignites all the expectations about reform and opening up as well as inspiring all the innovation and entrepreneurship. A few of new business models are lack of preferential policies but they can put forward in such a free and open environment. The meaning of the first negative list is not like what it appears but that market entities can do anything which is not prohibited by the law. And its deeper meaning tells that the government must not do anything unless it is mandated by the law. The negative list is rather a new administrative way of reform than a directory of investment. In addition, the FTZ Administration's bold attempts have already been a milestone and focus in reform and opening up. The whole country, especially the State Council and ministries have already put forward hundreds of

suggestions to help improve it which never happened in the history. Thus Shanghai FTZ, as a propeller, has facilitated the reform process of government administration. This is the real value of Shanghai Free Trade Zone that exceeds anything but itself.

I would like to mention two crucial points in system innovation:

First, it is launched by means of international rules like negative list. Our top priority is to form a high standard for investment and trade rules with satisfied results;

Second, the government transformation can be realized through forming a high standard for investment and trade rules, the change of government function and innovation of administration. The most important thing is transfer the focus of approving into of supervising, which is also the main element of system innovation in the FTZ.



So far, Shanghai Free Trade Zone insists on abiding by three major tasks of CPMCC and the State Council. The first task is to reform the investment and management system, which focuses on easing the market entry in terms of negative list. In the meantime, a regulatory system both in the course and afterwards has been in the process of establishment including security censorship, anti-monopoly review, social credit review, public issue of corporate annual reports, business directory and information sharing, joint law enforcement and supervision system with social involvement. The second task is to upgrade and expand the service industry. Among all the tests, 18 industries has released 23 liberalization measures in six areas including finance, shipping, trade, expertise, culture and social services. The measures are still a few but go on very smoothly. The third task is to take initiatives in financial reform. Currently, the reform is still concentrating on exchange rate facilitation of investment and financing, greater use of RMB for cross-border transactions, market-based reform of interest rate and foreign exchange management. The core of the pilot financial system is to internationalize RMB while increasing use of RMB for cross-border transactions aims to enhance the circulation scale. Market-based reform of interest rate is needed to determine the pricing mechanism of RMB while reform of foreign exchange management intends to simplify the exchange process. In particular, free trade account regulations issued in May 22 has formed a comprehensive environment to internationalize RMB under a new account system.

Above all, I believe there are five factors for successful system innovation and free trade zone as a whole. First of all, system innovation should be accompanied with the whole government decentralization. Secondly, it should be more linked with user experience of enterprises. Thirdly, it should be in accordance with international rules. Fourthly, it should be integrated together with the construction of “four centers” in Shanghai. Last but not the least, it should follow the rule of sustainable service in the FTZ. Only in this way is it able to become a satisfied Free Trade Zone.

*( Edited from a shorthand record )*





### ■ Graham Mather

Chairman, World Free Zone Convention



In Europe we trace free zones back to the free cities of Northern Germany. We've mentioned Hamburg and Lübeck and others, who as long ago as the 12th century AD adopted techniques facilitating trade. Now, at that time, the autocratic princely rulers of Europe and the holy roman emperors tended to favor military conflict and territorial acquisition.

But compared with that, we saw the leaders of those city-states merchant leaders, creating free ports and developing free trade agreements with a network of their peers across Europe, which eventually developed to the Hanseatic League: a sort of early common market or even a prototype TPP. So there are many parallels of the contemporary developments and the historic free ports.

There is rather limited academic literature on free zones, and we find that we are learning by doing. There is some good work by an Italian academic Dr. Francesca Trampus, and by the World Bank. The World Bank's latest message is to urge a more flexible approach on free zone development. They emphasize that zones are changing and evolving. And I would like to pick up that theme: How are they evolving? Because, it's very relevant to Shanghai.

Because zone advantages tend to be conferred by governments, success requires both astute policy design, careful monitoring, a preparedness to learn from mistakes, to amend the package, and to adjust the regime. A message I respectfully have to offer to Shanghai is that changes are signs of success in this environment.

Now it's no coincidence that the launch of the world organization took place in Dubai, because Dubai has been an exemplar of this innovative transformation of zones,

which one academic, Professor Easterling, has called extra statecraft, a phenomenon that acknowledges that multiple forces: state, non-state, military, market, and non-market come together to achieve the power and administrative authority necessary to build infrastructure. And the zone seen in this way, is a dynamic cross-roads of trade, of finance, of management, and of communications.

We can trace three evolutionary eras for zones. The first era from the mid-16th century, building on those free cities, to the 1930s. Here we see the US foreign trade zone program in the 1930s dominated by the free port, the transshipment role. A second role was from the late 50s to the 70s focusing on export processing zones. The third, starting probably in the 1980s, saw the rise of special economic zones, economic and technological zones, and science industrial parks.

In the contemporary zone, we see something quite new, the zone city. Since Jebel Ali was established in 1985, Dubai has hosted zones for almost every possible activity.





We've heard our speakers mention them: the Internet, healthcare, Silicon Oasis, Knowledge Village, Media City, Outsource Zone, Humanitarian City, Textile Village. These activities go far beyond simple transshipment.

Here in Shanghai, too, we have seen the establishment even this month, of a court of arbitration. It rather picks up Professor Shiller's message from our opening session, when he said we need to have more lawyers. Well, perhaps we are actually going to see more arbitrators who may be cheaper and faster than traditional lawyers, but we get the point. The point is they help free zones thread together the existing global contractual networks into a growth regime.

So where are these heading? What are these transformations? They are also changing our urbanism, and it reminds us of books like Benjamin Barber's, *If Mayors Ruled the World*, with its arresting subtitle, "Dysfunctional Nations, Rising Cities". I was very glad when I saw the name of the New Shanghai Zone: Pilot. Because, it shows that the zone, is not a special privileged enclave arrangement for Shanghai, but the testing of concepts that, if successful, can be applied to the whole of China or emulated in other parts of China.

It is a profoundly correct approach, because it tackles head on, one of the most serious political challenges to zones, the challenge of the zone border, and the differential and advantageous regime, which applies within it. And that seems to me the question, which has bedeviled European policy in this area, where many of the benefits of zones, have been regarded as state aid, as special privileges, and have been constrained and policed by the European Union, reducing the potential of zones.

That issue is completely solved, in my opinion, by a pilot concept. Because if a zone is testing techniques which in due course may be extended to the rest of the country, then the benefits within the zone, are at once legitimated within it, and aspired to outside the zone. And what might have been seen as an unfair advantage,

if it continued forever, can no longer be seen in that perspective, if it is a measure from which in due course all can expect to benefit.

And the second cause for rejoicing is this tentative aspirational and fluid concept associated with a pilot. The negative list is an important tool. Because we should, I think, realize now, that legislation doesn't always get things right the first time. There isn't always one correct answer.

President Xi Jinping when he visited the zone last week made the point when he stressed that Shanghai is a large pilot that needs careful management, and that should combine structural reform and new methods, while controlling the risks and gradually making improvements.

So let me conclude then, with three messages. First, zones are not selfish enclaves, they are testing grounds. Second, zones can spread their benefits to the rest of our economies. Third, zones have moved from the narrow early functions, to the concept of the zone city with the widest range of economic and social techniques. And they have a very important role to play right across nations, and across society. Therefore, the success of the China, Shanghai pilot zone will be watched very closely around the world, because it could herald the next development of free trade zones, globally.

*( Edited from a shorthand record )*

## Closing Ceremony Address



### ■ Park In-kook

President, Korea Foundation for Advanced Studies, Republic of Korea

This morning, I am so delighted to witness that the Shanghai Forum is growing into an academic hub of international society where Asia and the world engage in intellectual dialogue and exchange. By providing platforms for scholars in China, Asia, and the rest of the world to share ideas and an open-minded way of thinking, we can bridge the gap between professional pessimism and cautious optimism on the future of China and Asia.

During the past three days, sessions unfolded under 9 panels, a high-level dialogue, roundtables, and a special session to address various issues and challenges facing Asia and the international community. I am sure the sessions allowed all of us to better recognize and identify where we are and what should be done right now.

Regardless of rapid economic growth of Asia, we must be reminded that Asia is still home to 60% of the world's poor with ever-increasing social inequalities. Aging is another obstacle that many Asian countries must cope with because it entails heavy social costs, employment issues, and the need for health system reforms. Despite flourishing economic interdependence in Asia, systematic collaboration in the arena of finance and trade is being further hindered by mounting tensions due to history and territorial disputes in this area. If I may sum up the present situation of this region with a characteristic feature, it will be 'uncertainties in great

transformations'.

As the former Korean Prime Minister Han Seung-soo said during the opening ceremony, "What we need in the future is not just a fast growth but a fast growing clean growth. We also want a socially inclusive growth. Without transformation and new technologies, clean and inclusive growth would not be obtainable." Most of the pressing issues concern not just one or two countries but the entire international society.

Ladies and gentlemen,

In identifying new dynamics, we paid special attention to the ideas on sustainability, collaboration, innovation, and entrepreneurship. We should continuously encourage integrated and interdisciplinary research to be coupled with closer cooperation between government, academia, and the private sector. And scientific and technological innovations should be trailblazing forces in achieving sustainable development. Because such innovations have paved a new world to mankind through breaking the deadlock gripped by frustration and perceived perception during major global crises in past world history.

I wish to underscore that universities, think tanks, and civil societies must continue to create new knowledge and share it openly so it may serve as

catalyst for innovation. Massive Open Online Courses of major universities, so-called MOOCs, and TED talks are exemplary cases that herald a new era of diffusing the yields of innovation through digital multimedia. As part of modeling after such new approach, I hope the Shanghai Forum will serve its contents through the digital media via internet to share its innovative ideas and intellectual property with the rest of the world. This will allow the Shanghai Forum to contribute to the global community more efficiently with the firm belief that digital contents will lead to the death of distance, transcending space and time constraints.

Ladies and gentlemen,

When I spoke at the opening ceremony, I briefly mentioned a special session on social enterprises, which was led by SK Group of Korea. It focused on fostering collaboration across private and public sectors to nurture social entrepreneurship in Asia and help overcome societal issues including widening inequalities in the region. I think we had a very successful stocktaking session on corporate social responsibility (CSR). I hope we can continue building on this year's success in the future at this forum.

Last but not least, I wish to express my very very special thanks to Chancellor Zhu Zhiwen and President Yang Yuliang, who have shown wholehearted dedication in leading the Shanghai Forum and being true sources of Chinese social dynamism. For the excellent and impeccable preparation of the Shanghai Forum, my

gratitude should go to Vice President Lin Shangli, Prof. Zhang Yi, and members of the secretariat. Taking this opportunity, I wish to send my special condolences to late Mr. Kang Tae-seok, a colleague at my foundation, who has suddenly passed away last week for his great contribution consistently through the past eight years of the Shanghai Forum.

复旦大学是中国的名门学府，长期以来，一直继承了“博学而笃志，切问而近思”的优秀传统。本次论坛的顺利召开，离不开复旦大学的大力支持和协助！感谢朱之文书记、杨玉良校长以及组委会的全体成员，谢谢你们！在此，也衷心祝福复旦大学的明天更加辉煌！谢谢！

( Fudan University, as China's prestigious university, has inherited the tradition of "Rich in Knowledge and Tenacious of Purpose; Inquiring with Earnestness and Reflecting with Self-practice". The successful convening of this forum could not have been achieved without the great support of Fudan University. Thank you so much, Mr. Zhu Zhiwen, President Yang and all the Organizing Committee members. I sincerely wish Fudan University a brighter future! Thank you! )

*( Edited from a shorthand record )*



## Interviews with VIP Guests

During the Shanghai Forum (2014), the Organizing Committee invited well-known professors from Fudan University to make in-depth interviews with VIP guests of the opening and closing ceremony in order to elicit their insights of their respective research areas and on Asia's future development.

VIP  
INTERVIEWS

## How to Distinguish Between Science and Non-science in Economics?

**Robert J. Shiller**

Sterling Professor of Economics, Yale University, USA  
2013 Nobel Laureate in Economics

- Interviewer: Zhang Jun ( Director, China Center for Economic Studies, Fudan University; Vice Dean, Fudan Development Institute)  
Editors: Johan Gade, Wei Xiaocen



**Zhang Jun:** Everyone is talking about the fact that the Nobel Prize was awarded to both you and professor Fama at the same time. People think professor Fama actually rejects any idea of a bubble in the financial and housing market, whereas you are seen as the creator of the theory of the bubble. Why do you think you and Fama were given the prize at the same time? What does it mean? And do you find it surprising?

**Robert Shiller:** I don't know why they did it, but they have done things like this before. In the 1970s they awarded the Nobel Prize jointly to Friedrich Hayek and Gunnar Myrdal. Hayek was very much like Fama, and maybe even more extreme free market. Gunnar Myrdal was an advocate of the welfare state. Myrdal thought it was horrible that we let poor people suffer. Morally we must lift them out of their suffering. So there was a total difference back then. I think that to some extent they think that the kind of debate we see is itself illuminating, even if it hasn't reached the final conclusion. No one is going to resolve the free market versus welfare state split any time soon, but we would like to see people talk about it.

The other thing is that I spent a whole week in Stockholm. I didn't know it was like this until I went through it, but what the Nobel Foundation does, is that they offer all of the Nobel Prize winners a free week in Stockholm. During that whole week I had the opportunity to talk many times with Fama. And when I talked to him one on one, I didn't feel that there was such a chasm between us. We agree on the facts. And Fama and I agree that the stock market is somewhat predictable, especially over longer horizons. Not necessarily tomorrow, we cannot tell what it is going to do tomorrow. But he just thinks differently about what that means. He doesn't like the word bubble.

**Zhang Jun:** You created another word for the bubble?



**Robert Shiller:** Well, I tried to create another definition – a clearer definition of what a bubble means. The word bubble apparently became popular in the year 1720, because there was a big international stock market crash in 1720 in Europe, and the word bubble has stuck. Nobody knows exactly what it means, but we think that a bubble is a time when irrational investors are dominating the market and the market prices get too high. I'd like to define it as a kind of fad, just as we see fads in other things, like clothing. For example, around the year 1950, people started wearing blue denim pants, which had been work clothes. It's kind of a social contagion. People are faddish – it's human nature.

In a stock market bubble, it's very hard to discern why everyone is buying into the stock market. They'll give you a reason that sounds plausible. Typically, there are 'new era stories' that develop. But you have to reflect that those stories are developing in reaction to the market, and they're not really sound stories, although there's usually an element of truth in them. Valuing the stock market would require balancing all of the arguments, but that is not what most people do. They hear some arguments that seem talked about a lot and they react to that.

**Zhang Jun:** But the efficient market hypothesis is quite consistent with the fundamentals of economics. How do you challenge that? When you met with Fama, who would be more convincing?

**Robert Shiller:** Fama coined the term efficient market hypothesis and he is famous for that. At the Nobel week I was saying that that is an important theory. It's not a hundred percent right, but it is an important theory, and I believe that. But I did a thing that really annoyed Eugene Fama. I told him various times during Nobel week that I wanted to congratulate him on being one of the most important voices in how to beat the market. So, he had a graduate student named Booth who founded a company called Dimensional Fund Advisors, and Booth asked Eugene Fama to be research director for that fund. Since then, the fund has acquired well over three hundred billion dollars in assets, making it a top fund, because of its good performance. It has beaten the market. And in fact it has made so much money that Booth went back to the University of Chicago and offered a three hundred million dollar gift, and they changed the name of their business school to the Booth School.

So where did that money come from? It came from Eugene Fama's brilliance at learning how to beat the market. So I said that to him in front of a crowd and he looked so annoyed. I said, "I'm congratulating you, Eugene, you are an amazing expert in how to identify bubbles." But he doesn't think of it that way. He has his

own way of describing it. And he thinks of it as him having identified risk factors, and that the markets are completely rational all the time. And that is not inconsistent with his being able to be a good investor.

You have to ask him to explain it, but if I had to take his side in the debate, I would say his theory is that there's a good reason why markets are predictable. And that predictability is not an opportunity for everyone. But for some investors who have a different risk profile, there are opportunities, and he is offering a special service to those investors. And logically, that's a perfectly sound reaction to the elements. And by the way, I admire Fama, just like you can admire someone from a different political party. When he does research I read it, because he is honest and he is very clever in how to do research. There is so much bland research that you don't want to read. When you see a paper by him, you think this is likely going to be something I want to know.

**Zhang Jun:** How does he evaluate your work?

**Robert Shiller:** I have been involved for twenty-five years in advancing the cause of behavioral finance – psychology and finance, or more broadly, social sciences and finance. He told me once, that he is very proud of his role in behavioral finance. And his role was not to reject articles that were submitted. He was a referee for many of the classic behavioral finance articles and recommended publication. The other thing about Fama is that his most cited article of all times is his review of Behavioral Finance. So he doesn't dismiss it. He has a perspective on it that is not as warm as my perspective on it, but he doesn't dismiss it. I think any researcher has biases. As long as you don't let it affect your publishing results. As long as you say, this is what I did and these are my results. You can have at the end of an article some interpretations, and people can take it or leave it.

**Zhang Jun:** You write for the Project Syndicate and I remember you had an article there saying that people always challenge economics on whether or not it is a science. Why is it called economic science? Can you explain a little more about that?

**Robert Shiller:** Yes, there has always been a tension – in any science – between the real researchers and the frauds. At various times in history they had to make a distinction. In the nineteenth century you would hear, for example, about chemical science. We assume that anyone who does chemistry is a scientist, today. But back then you had these alchemists and you had people who had religious and all kinds of motivations. They made potions and compounds and so on. They weren't scientists, so you had to distinguish a chemical scientist from an alchemist.

It is the same thing with medical sciences, because there were all kinds of dealers that claimed to have magical powers. I don't mean to dismiss it. China is known for folk medicine, and actually we could learn from these people, but most of them are not scientists.

When the Nobel Prize in economics was created in 1958, they named it the Prize in Economic Sciences. And I think it was because economics still has a lot of practitioners who are not in any sense scientists, and they are very politically involved and motivated. So we should be able to write papers in economics that everyone of any political persuasion will read and find instructive.

But there is one problem with a scientific basis for economics, which is that some people go too far, or rather, it's a problem of pseudo-science. Some people like to look at mathematical equations and they write down nonsense. There are tensions like this in the physical sciences too. There are physicists, who argue that the physics profession is going off track. I can't evaluate this, but there are complaints within physics, that there are many physicists who want to be the next Albert Einstein and put out theories that will never be tested, because there is no way to test them and they have no implications.

**Zhang Jun:** Do you know Shing-Tung Yau, the Chinese-American, who is a professor of mathematics at Harvard University and has worked on the String Theory?

**Robert Shiller:** That's right, yes. That is controversial among physicists. They don't have a way to test it, apparently. But they might figure out something. You know, Albert Einstein wrote his theory of relativity in 1905. It wasn't until 1919 that an experiment confirmed one of his implications when there was an eclipse of the sun. Maybe with String Theory it will take longer. You never know for sure what is science and what is not.

**Zhang Jun:** So how can you distinguish between science and non-science in economics?

**Robert Shiller:** A lot of people complain about economics, that there shouldn't be a Nobel Prize for it because it's not really a science. I don't think that's right, but I think economics is more vulnerable. It's a hard discipline to pursue methodically because the economic world is so complicated. It involves people, and there are so many different ways of looking at it and so many different ways of collecting evidence.

What sometimes happens is that people think that only certain kinds of evidence are scientific, and they would

throw out obvious facts as being not scientifically proven and ignore it completely. And that's in some sense what happened in the bubble that led up to this recent financial crisis. Eugene Fama had so much authority saying markets are efficient, that no one wanted to consider the possibility that investors were getting overly excited and pushing prices up too much. Simple evidence, which you get by just talking to people and listening to their reasons for buying, is not admissible because it's not scientific. So I like to get evidence from taxi drivers.

**Zhang Jun:** I remember you said you returned from Columbia and you had talked to the taxi driver, to learn what happened in the housing market there?

**Robert Shiller:** Exactly and he pointed out as we were driving, "Do you see that house there? Five million US dollars" he said, "it's just amazing. It's going totally crazy in Columbia." I was also in Miami, Florida, and the cab driver was pointing out to me all the buildings that were going up, and he said, this is going to end badly. They're building too much. Then I go to my meeting of economists in Florida and they are writing all these mathematical equations, and how could I possibly bring up what the taxi driver told me. Of course I don't, but secretly I was thinking, maybe the taxi driver has a better understanding of the real estate market. I don't mean that generally, but it sometimes happens.

**Zhang Jun:** Let me ask you about something different which you have also discussed in your writings on the financial sector. In both the US and even in developing countries today, it seems the talented and smart young people are all rushing into the speculative industry like investment banks and securities, and this sector seems to be growing comparatively to the conventional financial sector. Do you think that is inevitable?

**Robert Shiller:** It might be a bubble. There was a bubble in the financial sector in the 1920s that led to the 1929 stock market peak and then a crash. And we have been going through one, especially before this crisis. Salaries were rising rapidly, and many people were moving into it. We have to remember that these things have happened before and came to an end in the past.

I also am a big believer in physical sciences. There is so much going on. To be a young person today I would feel very attracted to medical science and biological sciences. Neuroscience is exploding; there is so much happening there. In fact I think one revolution that is happening now is coming from the medical schools. The neuroscientists are learning about the human brain, and they're starting to get interested in economics. I'm

actually going to a conference in another month with neuroscientists and economists, about collecting data and integrating neuroscience data on a big scale with economic data. So I think that economics is not really isolated in the sciences anymore.

**Zhang Jun:** Do you think that economics is going to integrate more with other sciences?

**Robert Shiller:** In the 1700s, a lot of economics was done in philosophy, by philosophers. Adam Smith was a moral philosopher and David Hume was a philosopher. Maybe they're also coming back. My son is a graduate in philosophy, and he reports things to me that look like something I have seen in economics discussions. And actually neuro-philosophy is developing now. We have to take account of how the human mind works, and it changes philosophy.

**Zhang Jun:** If you had to predict the development of economic science over the next half century, what would you say?

**Robert Shiller:** I find it very difficult to predict what goes on in any academic discipline, but as I was saying, I think neuroscience will change our view of human nature. For example, you have Paul Glimcher, who is a New York University neuroscientist. He says economic science has been built on the idea that people are utility maximizing – moreover, expected utility maximizing. Then he says, if that's happening there has to be structures in the brain that are doing that. So he wants to find the structures. It might not exist, but this is a research project that will take decades. My guess is, that they will find out that there isn't a utility function optimizer in the brain, but maybe something analogous, that we can't conceptualize yet.

**Zhang Jun:** I also wanted to mention the book by Thomas Piketty, *The Capital of the 21st Century*, which has drawn a lot of attention, both in the US and in China. I think the reason why it got so popular here in China is that they used a very interesting name in Chinese, because it's parallel to Karl Marx's *Das Capital*.

**Robert Shiller:** Well I thought of that too. I got a copy in the mail, and I thought it looks like Marx. The nice thing about Piketty's book, like Marx's book, is that it's also very readable, and it tells you about a long sweep of history. It's a very readable history about inequality. It also has another similarity with Marx, that it's about the poor people and their oppression in some sense, so it even has a similar theme.

Piketty's view of inequality emphasizes wealth accumulation, and that's another Marxist thing, because

Marx said that the concentration of the ownership of capital was the problem. My view of inequality is that it has multiple causes. He talks about the top one percent, and that's important, but what about the difference between the average or the median worker and someone in the bottom ten percent? Maybe that's more important.

I'm thinking that part of what's happening in the world today is that the real working class, people who are not educated and don't have special skills, seem to be suffering, and it has something to do with modern technology, like the internet and computers. This is an old theme. It goes back to the Luddites in 1811 in England, who thought that mechanization of weaving was leaving people unemployed. Two hundred years have gone by and that idea hasn't ever taken hold, but I think the way computer technology is advancing now maybe shows that the Luddites were just two hundred years too early.

This is not addressed in Piketty. He may mention it briefly, but he really is emphasizing the accumulation of capital. However, he does have a point that you do develop rich families that pass their wealth onto their children. If you do that for a couple of hundred years and you keep accumulating, they are going to be really rich. So Piketty wants to stop that, and he has a very modest solution. He doesn't want the proletariat to rise up in revolt. He just wants to tax on capital wealth, slowly.

**Zhang Jun:** I would guess that you would agree with Thomas' book very much more than some other economists in the US?

**Robert Shiller:** Well, I am sympathetic. I have already written about this in one of my books. I am thinking that we do have to tax the wealthy more heavily. And the model that I've been emphasizing is that we need a contingency plan for the future, because inequality might get a lot worse. And we have to plan to raise taxes.

**Zhang Jun:** So you have mentioned inequality insurance? Do you think that will fix the problem in the long run?

**Robert Shiller:** Yeah, this is my proposal. But I haven't had any success in convincing congressmen about it. Piketty has no success either. In fact he admits in his book that it's not going to happen. It's like global warming. It looks like it's going to happen. With increasing inequality, too, it looks like it's going to happen.

Another thing that is happening in the world today is that talented young people travel all over. There's a class of very successful cosmopolitans. They don't really identify with a country. I was really struck when I went to London, to do a book talk for one of my books. They had

a woman there, a Londoner, and she took me around to various book talks. One of my book talks was at a London bank to a group of about thirty people. Afterwards she said that there wasn't a single Brit in the room. They were from India, China, Brazil, but none of them was British.

There was a sociologist, Robert K. Merton, who wrote about that people tend to divide into either of two groups, cosmopolitans or locals. And this is true everywhere, even within universities. This is a natural human tendency. My view of the world is that in the next 50 years, we are going to see a group, almost like a nation of people from all different countries, and they will be travelling around the world. And then there will be the locals who are left behind, and they will be poor. This is an unfortunate outcome I think, and I'm worrying about not letting this happen, but likely it will happen.

**Zhang Jun:** Regarding China, everyone is talking about the slow down. Do you worry if that continues over time, that China could face big pressures from unemployment? And some people are worried that the Chinese economy will face a hard landing? What is your understanding of the Chinese economy?

**Robert Shiller:** I wish I had a better understanding of these things than I do. There is a different mindset in China that I always try to understand because it comes from your unique history. Your market economy is only around thirty years old, and there hasn't been any major collapse in the economy in that whole interval. There is no real recession in China. A recession is defined as two consecutive quarters of negative GDP growth, and I do not think that's ever happened in that whole period. The other thing is that, although there are many reasons for China's success, I'm thinking especially that the integration into the world economy, and a government policy that is sympathetic to that, is something that is fundamental. And about the slowdown, the path is like this. The rate of growth is constantly declining, and eventually, you would think it would level off at the two percent a year that US and Europe have.

I wrote an article for a book that came out by the MIT Press in February called *In 100 Years*. They asked a bunch of economists to predict what would happen. I read all the different economists' articles, and I was among the more pessimistic of them all. I think I was the only one to bring up CBRN, a new acronym that stands for Chemical Biological Radiological and Nuclear Weapons. These are proliferating around the world and nobody has ever used them on a large scale. I am just worried about the next hundred years. These things are not necessarily controlled, and they could fall into who knows whose hands.

**Zhang Jun:** So what do you think the world will be like in a hundred years?

**Robert Shiller:** Barring such catastrophes, I imagine it would be a wonderful place. Daron Acemoglu, a Turkish economist at MIT, says that the more people there are, as long as they are involved in thinking, the higher the rate of growth of ideas. And if you educate all nine billion or however many people there will be in the world in the next century, then we are going to have a wonderful thing. I would like to live to see it.

But there is also the problem of the environment. There is a new book out by one of my colleagues at Yale, William Nordhaus, called *Climate Casino*. He emphasizes in the book that modern science is not capable of predicting the environmental catastrophes that might happen. He emphasized what he calls tipping points. You can be polluting the air for a long time and nothing seems to be happening. But it's possible that it will suddenly go into collapse of some sort or another, and then there is no way to stop it. The title of his book is *Climate Casino*, because we're rolling the dice and we just don't know what is going to happen.

## Exploring New Dynamics for the Low-carbon Development

### Michael Grubb

Professor, International Energy and Climate Change Policy, Institute of Sustainable Resources, University College London (UCL); Editor-in-Chief, Climate Policy journal, UK

- Interviewer: Wu Libo (Executive Director, Center for Energy and Strategies, Fudan University)  
Editor: Yao Yi



**Wu Libo:** Hello Michael, you are the chief editor of Climate Policy, which is the most authoritative journal in the world. I feel that you are really a master in the area of climate change, especially the policy issues. So let's start from the hottest issues. Is it possible to get some agreement in the coming Paris? Could you give us your prospects on the coming commitment?

**Michael Grubb:** I don't think we can really tell yet. International, global negotiations are incredibly difficult. You have different countries, each has different thinking, state of development and policies, changing of governments. I'm more optimistic about the Paris conference than Copenhagen, because on the Copenhagen Conference, there was a clearly defining issue, which was about whether the Kyoto Protocol would continue. It's clear that they are fundamentally different. So it was like seeing a train coming off its track, not being able to do anything. Paris is a different situation. The world has changed a lot, I think everyone has recognized how much the world has changed, and sadly, the expectations are lower. So no one is really expecting a binding global deal concerning emissions worldwide, because that's clearly politically impossible.

**Wu Libo:** So there will be no absolute target for mitigation of global warming on the global level?

**Michael Grubb:** Not in the sense that we will have a legally binding structure, I mean emissions reduction from industrialized countries, and even that proved unacceptable for the US without global participation. I'm sure that in Paris, a number of countries will try to achieve their targets in emissions, but I don't think it will have the same kind of legal force behind it.

The other point is that there's a high chance of agreement in Paris. The major players now want an agreement. In Obama administration's seventh year, it's great to seek an agreement. It is part of his legacy, and he will want something moderately strong, partly to make life a little bit more difficult for a successive US government. So I think the chance in the US is good, and the impression on China is also very good. China does want an agreement! it is concerned about climate change issue. Though the EU is in a weaker situation. It still wants to see an agreement. Those major players need to do something in fundamental politics to go through the complexities and find a way. One final comment on Paris. Usually in international negotiations, a global summit like this represents a major political breakthrough, and the countries will want some sign of convergence, with some details and signs that have to be deferred. And one of my private hopes is that we get a global, structured agreement, and a couple of years later, we might see the Beijing Protocol. A bit like 15 years ago, we have the Berlin Mandate, which was an agreement that led to the Kyoto Protocol. So maybe we'll have something similar in Beijing. I don't expect everything to happen in Paris.

**Wu Libo:** So Paris can be expected as a real milestone. I agree with you that situation in this region is hopeful for a general agreement in the post-Kyoto era. I myself am also involved in the government evaluation of IBCC AR5, and in recent days we also have an arrangement in which we comment on especially SPM of the working group three. During the evaluation process, we do feel that on the one hand, there are a lot of political pressure which is trying to interrupt the process of such kind of activities. On the other hand, we also feel that the political pressure is really imbalanced. From the Chinese point of view, as mentioned yesterday by Professor Pan Jiahua, lots of efforts done by the Chinese government has not been fully recognized by the international society, not only by the policymakers, but also by some scientists, they are also trying to omit some parts. This is partly because we don't have so many English publications. Even if articles were printed on the English journals regarding China's energy efficiency improvement, the local carbon transformation, even the ETS development. The international society wouldn't treat them in an equal way. That somehow makes the Chinese scholars a little bit depressed.

**Michael Grubb:** That's a very interesting comment. I think there are two or more different things going on. One thing is how slow information diffuses. So there's a natural timeline both between scientific discoveries and policy progress in a certain region. And we will find other regions two or three years behind, despite all the efforts we make at the international conferences. So that's one factor.

And language is another barrier. And it's not language in the sense of English and Chinese, but the culture and issues with which people consider seriously. And we're living in a world dominated by the culture of Anglo-Saxon, North American world, and that also tends to slow down progress and the common understanding. But we can do things about both points. I think there's a third problem that's not so difficult to deal with, which is that climate change policies become quite politicized. Not everywhere, but in the United States, it's a highly political issue. There are very powerful groups that try to slow down US climate policy. Very powerful weapons have been disabled. Watch if US does anything if China is slow to do that. They actively suppress the progress that China's making, because it weakens the stance of the US. I'm talking about a small, but powerful group. Too much for China's doing, but they want to stop that action in the US. And the strongest argument is that what the point of US's action is if China, with a billion people, doesn't act. So they kind of don't want to hear good news about progress elsewhere. I'm sorry that it's a slightly provocative thing to talk about, but I definitely observed that. But the scientific community can definitely help to overcome that sort of embarrassment, that's what international science is about.

**Wu Libo:** Yes, I think Shanghai Forum can also make some contribution to fill this gap.

**Michael Grubb:** Just from the personal perspective, there's still a bit of legacy in the west, about how China's is viewed, we observed those states, so far those images. I still found people quite surprised when I came back from my last trip to China, I had a great meeting with the Chinese academy of Social Sciences, which was a really interesting, engaging, frank, completely open meeting. People back home were surprised, they didn't quite realize that there is culture here in the western research communities. You just talk about issues and try to understand them, so there are a lot of historic and other barriers that can only be overcome over time. But we could accelerate it.

**Wu Libo:** And you published one very important book, we also mentioned your book yesterday. I myself read your book briefly, I looked at the 'three Peters' discussion', I do feel that it's very important for China, the emerging economy in the transformation stage. You know, before the open up and reform, China is a closed economy, moreover we are trying to deal with 'dual system'. On the one hand, we try to deregulate market, and absorb market mechanisms and experience from the western society. On the other hand, we try to keep some sectors. But now the government realizes that we need a complete reform, especially for the energy sector. Some people see that, ok, we introduce the market mechanism, to all the sectors, and let them work. But other people still worry about whether market mechanisms can work effectively in China. Your concept about sustainable development for energy climate, and such kind of management truly indicates that market is very important, but should not be the only instrument. Western experience is very important for an economy like China. So could you provide us some further discussion on this, especially how can we use such kind of three Peters to reform our energy management system?

**Michael Grubb:** Well, I am first glad to hear that you think it's a useful book. I'm interested if Chinese scholars have a chance to look a bit more into that. I can't say how much this applies for China, because that's something for Chinese researchers to think about and decide. I wrote this book partly because from my many experiences working on climate change, I became unsatisfied with the traditional western explanation that all you need to do is to introduce competition, and put a price on environmental damages, and that is the efficient thing to do. My political experiences told me that dealing with it was much harder than many thought, but secondly it wasn't a complete solution anyway. There are a lot of other things in practice, frequently what the government is doing will be commented by scholars as inefficient.

The situation is actually more complex. We have markets that are unable to do all things. Markets and prices work for some part, and a very important part of the problem. But they also leave very important gaps. There are also other processes that just require completely different policy tools. And I think many people live in strict economies don't think that we have a coherent intellectual explanation about different bits and how they fit together. And that's really what I'm trying to do.

**Wu Libo:** I think for Chinese scholars and policymakers, we really need to figure out other kinds of systems regarding energy and resource management. So far, we are trying to break the old system. But when we are building the new system, we have to think about the whole process. The experience you provide in EU is very helpful, I think for China, also for other Asian economies.

I also have some questions for energy structure transformation. Actually UK is a very good sample. On the deregulations of the energy markets, UK is on the frontier, it is a pioneer on the electricity and the natural gas market, and all these experiences have been widely adopted in many countries. For China, also for other Asian economies, the energy structure is also an important thing. Most countries have high national subsidies on the petroleum products. How can we adjust our energy structure? On the one hand, we have to defy green taxation system, on the other hand, we have to remove some subsidies for the fossil fuels, so do you have some observations on UK or European experiences, how can we do this, adjust such kind of pricing system gradually and smoothly, secure our energy security, and improve structuring?

**Michael Grubb:** UK has some subsidies for its coal production. One irony effect that people forget now is that UK is a strange place to promote low-carbon economy. Only thirty years ago, we were described as an island of coal and a sea of oil and gas. But domestic coal production was relatively high-cost and polluting, and it had become inefficient. There was quite a dramatic transformation when Mrs. Thatcher came to power. She wanted to get UK less independent on coal. That was one factor that helps the transition process. And definitely some privatization did help to improve efficiencies, bringing down some costs. In terms of introducing internet system. It's always difficult to remove subsidies and introduce environmental pricing. It's not easy because you're asking consumers to pay more. So it's got to be a good story, compared to what they're getting in return. And part of that can be the environmental improvement, but also like energy efficiency that can make us less dependent on the consumption of energy. One has to accept that in many major transitions, some groups are either protected or cynically brought out, because blocking changes is always hard. It's part of a

package that this is what we're trying to achieve, this is how we achieve it, and here's some help to manage the transition. Maybe we're a little lucky in Britain as well as we've got the North Sea gas coming in just at the time the new generation of gas plant steps in, actually helping to reduce the price at the same time.

**Wu Libo:** But now we see that natural gas from the North Sea is also declining, right? I noticed that UK is also trying to import natural gas from Russia and other countries. The big contract between China and Russia really encourages many people, but if we look at the long term planning of Chinese government, the Chinese government still put focus of fuel structure transformation on nuclear and natural gas. Look at the plan in 2020, 2030, nuclear, in addition to hydro, will be the third largest source of energy generation. But there is a concern in the massive society about security issues after the Fukushima. How about UK case and others?

**Michael Grubb:** In the UK circumstances, the debate between the government and the civil society in the last ten years stresses that we will need all three major sources of energy, nuclear, natural gas and renewable energy. That was sort of the government explanation, the carbon capture is still not witnessing progress as hoped. But in the British context, it's less necessary because we don't have so much coal production. The government has been committed to both nuclear and renewable principals, implementing that has required a substantial reform of the energy market, because both of them are capital-intensive solutions. In particular, nuclear requires a very long term to be financed. So the government has now negotiated a new nuclear power station, trying to improve concept. There are some sort of complications with the EU about that. It has to be solved sober, the energy prices ended up a lot higher than people expected five years ago, more than twice as high. Certainly, the so-called nuclear revival is going to be a lot slower in EU and UK. As to China, I cannot comment, these things are very much national choices. I think there's an observation that nuclear proved harder and more expensive than most people expected.

**Wu Libo:** So far, the operating nuclear units in China are not so expensive. Maybe it's because the central government provides subsidies and tax-reduction policies to the nuclear industry. If you look at the electricity prices, nuclear is even cheaper than gas, and that's the China situation. But people are really concerned about the security issue. The nuclear now in construction all use third-generation units that's much more expensive than the operating units. Russia signs a contract with the Chinese central government, but on the business side. There is still some problems to solve. Otherwise, it's just a political signal.

**Michael Grubb:** It's useful to have that additional option in China, because gas is cleaner than coal, and nuclear is cleaner than gas.

**Wu Libo:** Regarding the low-carbon transformation, the carbon market is now piloting in some cities in China. EU-ETS has some experiences. Good or bad lessons we're trying to learn. Now the Chinese government has two thoughts: One is combining the energy conservation trading with carbon emission trading, as I know, UK also experiences that. You introduced the white certificate for energy conservation, and the green certificate for the renewable, but this experience does not seem so successful, as I learned from the journals. So do you have some stories about this?

**Michael Grubb:** Well yes, there are quite a lot of stories. UK and EU tried to make serious progress on energy efficiency through various mechanisms, efficiency standards. The UK has quite an interesting set of instruments including business sector on energy efficiency. There's growing support for renewable energies. The solution in Britain is more complex and probably more expensive than it needed to be, and is now being reformed. The center problem has been price or carbon with the EU carbon emissions trading scheme. It's a mixed success. It looks like it's working perfectly, then there were some initial difficulties, some scandals about false allowances. But I think why a system like this effective is that it is creating real value in reducing emissions, and once you created a system with real financial value, somebody tries to play games with it, corrupt it. So you need strong governments. And I think we've got that, it's a well regulated system now.

And the big problem now is that the people designing the European trading scheme, including its extension to 2020 simply didn't understand uncertainty. So they can't set a cap which they think is reasonably ambitious. And lots of things happened. One was the major economic recession, we also had successive renewable energy policies, we have progress in energy efficiencies, and we have success in clean development mechanisms generating emission credits. So the whole system's flooded with more supplies coming in, but the emission's reducing for several reasons, and the result is that there's not much left for the carbon market because the target's going to be achieved anyway. So you have the question: Is it a success or a failure?

**Wu Libo:** Maybe we need some adjustment.

**Michael Grubb:** Well, I think the point is the world is more uncertain than you think. You should design a system to deal with that uncertainty, so make it more robust, you also have to be clear and honest about what the instrument is supposed to achieve. So the people devising the carbon market seems to have an assumption without thinking very carefully that it will deliver

emission caps cheaply and create a carbon price that will help the low-carbon investment and all those things. And those two targets are contradictory. You know, driving a CDM for international support, it helps that the target is achieved, but it's been useless for investment, because the price has got so low. Some industry group says: What's the problem? We've achieved the target, but we could have cut it down to much deeper levels. So the low-carbon investment is really important. And we should have developed the instrument to support low-carbon investment to give more confidence about the price. And that probably means we will need a price code or something. We'll design a system such that you get more confidence about what the price would be. A bit actually thanks to California.

**Wu Libo:** California seems to be a successful case so far.

**Michael Grubb:** Yeah, it seems to be more successful. Partly, I think they learned from the European experience. The successful is always the latter. But I mean there is a serious attempt now to solve that problem, with what was called the market stability mechanism, which is an approach to withdraw allowances when the surplus becomes too large. That is a proposal been put officially on the table by the European Commission and I think we will see a lot of debate over the next year about how exactly it's implemented.

**Wu Libo:** In China, some provinces are also testing that, the allowances are allocated to each firm. If you don't trade, your remainder would expire by the compliance period, and you cannot trade it for the next year. They're trying to make some adjustments. You mentioned the interaction of different policies and the net outcome is totally different from your policy goal. That's the Chinese experience.

**Michael Grubb:** I think one point to stress, as an empirical fact, in almost every cap and trade system that I know of in carbon or elsewhere. The initial politics is about 'Oh this is going to be expensive and hard! Can we afford it? What will it do to industry?' And the problem has ended up being the exact opposite. 'Oh the target is overachieved! The emissions are below the cap! This thing is too loose! We've got too much surplus!' That is not always going to be true in the future. We don't know, but the same is pretty true for the United States. The first scheme is the regional gas program. Of course we are always more aware of the possible costs. The feared cost of the system, very often when something is on the way. The industry works to deliver it much cheaply than they thought.



## Viewing China (Shanghai) Pilot Free Trade Zone from a Global Perspective: Be Imaginative and Patient

**Graham Mather**

Chairman, World Free Zone Convention

- Interviewer: Yin Xiangshuo (Vice Dean, School of Economics, Fudan University )  
Editor: Chen Yuting



**Yin Xiangshuo:** I know you are the president of World Free Zoon Convention, what role does your organization play in the world?

**Graham Mather:** The World Free Zone Convention is now about 12 years old, its object is to provide a meeting place for the free trade zones and special economic zones around the world. Each year we tend to have one major convention. We've had one in Shanghai in 2011. But we have conventions all around the world in Cairo, in Paris and a lot of places. Sometimes smaller regional meetings or meetings and talk with the international authorities, the world custom organizations and so on. Fundamentally it's a meeting place.

**Yin Xiangshuo:** Since you have been involved in this activity for many years, you must be quite familiar with the Free Zone development in the world, can you briefly tell us the development of various free zones in the world?

**Graham Mather:** The idea of Free Zone came from North Europe in 12 century in cities like Lubeck and Hamburg where the merchants who tended to be the leaders of opinion in those cities decided to reduce customs barriers, promote trade business exchange and to free themselves from the aristocratic princely rulers of the Holy Roman Empire. So there was division really opening up in the old-fashioned states which tended to be war-like and preoccupied with territorial expansion, and the free cities which formed eventually the Hanseatic League, the first European common market in which they traded with each other and reduce the barriers in trade. Then we come to the 20th century, we've seen three stages of free zones. First, simple transport shipment areas free of customers' controls in which they could import goods, perhaps manipulate goods and then export goods again. And then we saw more complicated special economic zones like those in China. The third wave of zones has been a development of zones cities like Dubai, where a zone has all financial transactions, international financial center, or an internet city or a health care city in which the zone technique of lower controls, low taxes, more freedom, has spread to a wide range of activities.

**Yin Xiangshuo:** Do you think you can classify different zones into different types?

**Graham Mather:** A zone is a defined area and it clearly has special economical regimes of some types, and zones are typically more liberal than in the rest of national economy. All zones fit into the three categories I have mentioned above.

**Yin Xiangshuo:** Why are there so many zones? What functions do the zones play in the world economy or each individual country's economy?

**Graham Mather:** When you adopt a zone program, as a country you are sending a signal of several messages. One is to foreign direct investors, which is to say "welcome". It's putting up a sign open for business. The second element is often a reduction of controls in barriers. These may be customs barriers, they may be taxation levels and they may be how quickly it is possible to incorporate with business. It's sending a message of speedy in cooperation. And there can be other aspects of the zone which are helpful. It may bring a cluster of activities which are a bit like a science park, or it may be a focus of expertise, or it may, in the older zones, be a focus on export and export processing. People may say that they are not sure about the workings of national economy in the whole country but they like the security and the predictability which the zone can offer.

**Yin Xiangshuo:** Are the zones playing the same importance in each country? Which kinds of zones are more successful? Is it a region-specific or type-specific?

**Graham Mather:** I think zones are rather region-specific than type-specific. For example, in Nigeria the main zones are in the Oil & Gas sector and they have been proved successful in providing an environment in which the trade can be done well. This has been copied in Iraq where there is going to have an Oil & Gas Trading Zone. In other parts of the world, they maybe focus on commodities, electronics and internet. I think it's hard to generalize about all zones but it is easily noticed that zone programs have been growing in large economies. The way that China has built her economic growth on the special economic zones really sends a signal around the world that zones are here to stay. And the fact that in India there are several hundred zones, much smaller of a quite different type is also an interesting signal that although some people thought zones might be temporary transitional arrangement, they now seem to be both

permanent and, here in Shanghai, a pilot for the whole economy. I think in the last ten years, a step up in the importance of zones and a reduction in criticism. Now those critics are seemingly to be a growth agenda.

**Yin Xiangshuo:** Why do you think after so many years of zones' development China still need a pilot free trade zone?

**Graham Mather:** The significance of Shanghai Zone being a pilot is enormous, it's very profound and there are lessons for the whole world in it. A zone is a small part of the nation's territory but with a favored privilege regime. There's a fundamental instability and asymmetry in that arrangement. A healthier sign is that people outside the zone say they' would like the same benefits. The significance in Shanghai is that it's being firstly designed explicitly as an experiment to test policies, and then to extend and replicate those policies across the whole Chinese economy. This seems to be a very innovative and healthy process because it removes the tension. It seems to me an excellent idea and one which is full of potential both for the zone itself and more importantly for the whole economy.

**Yin Xiangshuo:** If there is no privileges, no preferential policies, how can the zone do its experiment? What are the difficulties?

**Graham Mather:** There will be some differences between special zone's privileges and its usage as an experiment. For example, inside the zone, the ownership of the banks of insurance companies and other arrangement, the model of the pilot is we are going to test this for several years, if it works, everyone will have the same policy. It is "test by doing" in a defined area. In designing the zone, counties in the world do not design a policy for the zone which they would be reluctant to have in the national economy. If there is zero tax of goods, zero tax services in the zone, is the country also able to have zero tax on those goods services across the economy? If not, there's going to be a problem. If you have a differential regime over many years in a country, then that is distorting and unstable. It's the synthesizing of what's happens in the zone, what happens later in the national economy, which is the key both to the Shanghai experiment and to the whole future of zones.

**Yin Xiangshuo:** Can we take measures of the

internationalization of Renminbi in the Pilot zone, and target it first at neighboring regions?

**Graham Mather:** Calibration and timing are very important to the liberalization. If liberalization is done too quickly, a flood of capital will come into the zone in an uncontrolled way which will be dangerous. Another risk to be bore in mind is the relationship between the prudential regulation of banks and insurance companies, the capital controls on them, the reserve requirements in applied them. Clearly this will be reduced in the zone, but reduced rather than eliminated. The question is how to reduce them and encourage a thriving financial services market without damaging the prudential regulation which we have seen from histories in U.S. and in London that lead to disaster.

**Yin Xiangshuo:** Recently our central bank issued a new policy in the pilot zone allowing business firms and individuals to open a separate account in the zone, what do you think of this new development?

**Graham Mather:** The policy which was announced by People's Bank of China on May 22th about separating accounts and opening off-shore accounts is the first step in the liberalization process. It is limited to businesses which have established and registered themselves in the zone and the authority clearly wants to monitor closely the take up and use of these accounts. I think that's a standard part of banking supervision and I'm sure they will do that carefully and the lessons from that will be the central messages to gage in further replication of those policies. So I think it's a pilot in the true sense. I was discussing it with my colleagues in the World Bank and their message to Shanghai is "be patient". There is plenty of time; there is no need to rash this and to expect a transformation over night. Maybe there are critics that it has been 8 months and nothing has happened in the zone, but we should ignore these critics, relax and be patient. And there will be people saying this is frightening and alarming, my colleagues said let us be patient and calm. Let's see what will happen. I think this is a shrewd and good advice.

**Yin Xiangshuo:** What advice do you have for further development of Shanghai Plot zone? What kind of difficulty do you think that Shanghai Pilot Zone is facing?

**Graham Mather:** I think the difficulty Shanghai Pilot Zone is facing is the very high expectations. There is a lot of pressure. To achieve the liberalization on the capital account and in the service sector smoothly integrated with the existing regulatory systems is a very skillful task that need to be adjusted with great care and precision. I think that's why the Vice Mayor at the Shanghai Forum said that we faced challenges. I think they are serious but they are also good challenges, they are the right challenges. So by the advice from the Word Bank, we should be patient and cautious, step by step. Come from the governmental system in the UK, criticism is often the other way. In Britain we often think we make policy too quickly, we didn't think it through, we didn't secure consensus. Is it really sustainable if the world changes and will the government all be put into reverse? That particularly alarms international investors who like obvious predictability, certainty and long term. Now Shanghai and China have all this advantages, so let's not rush blindly forward.

**Yin Xiangshuo:** Do you think there are any differences between private zones and those managed by governments?

**Graham Mather:** I have suggested the authorities here that in some point in the future it might be possible to consider allowing government owned contractor operated. Perhaps tried first in experiment somewhere, don't put all your eggs in one basket, try out and see how it's going. But I think the innovation of the private sector provided with a license environment could be a happy combination.

**Yin Xiangshuo:** What do you think of China's trade development related to pilot zone?

**Graham Mather:** The zone's spirit is to reduce barriers and tariffs and this is especially important in financial services. Although we have WTO, we don't have WFO for financial services especially for their regulation. As we globalize, it surely would be better if we can say that in America, Europe and in the BRICS generally broadly are on the same page about how we regulate financial services and how we open up our markets to each other which we are not at the moment. We ought to be more imaginative and less legalistic. Significant part of our future growth is going to be financial services again. A genuine opening and multilateral spirit and positive

endorsement by China and steps towards the talks by China would be a welcome development. If China advances towards them, we will then see whether people really want China, I believe they do.

**Yin Xiangshuo:** Do you think Shanghai Pilot Zone has any significance for development in other countries?

**Graham Mather:** The positions in the rest of the world where zones become numerous have become rather static. Once they established, they didn't overflow for the rest of the economy and set the national policy agenda. I've always thought that was unfortunate and I believe that Shanghai Pilot Zone is the first zone in the world which is explicitly be seen as a test bed for the whole economy with the whole authority of the government and the president, prime minister behind it. This cannot fail to influence the rest of the world. If they see this succeeding, I think other governments will begin to think like "we have zones, let's learn from their lessons", or "why don't we pilot these ideas and see if we can emulate China? ". So I think it's a brave step in original idea, and for those who are in the free zone movement, it's sort of great encouragement and pleasure that the economy of China has used the zone for profoundly important purposes. So I think it can't fail but to be emulated and followed.

**Yin Xiangshuo:** How many Free Zones are there in the world? What's your expectation of these zones?

**Graham Mather:** The figure which is often used suggests that there are about 3500 zones in the world, and these include quite a large number of rather small zones. There are at least 1000 economically significant zones around the world.

The academic literature of zones' development is rather thin, given their academic significance. It's where new young economists can make their names. But also the international organizations have found it rather difficult first to define and then to capture data, the World Bank is probably the best. All the signs are that they are contributing any increasing proportion of GDP, the number of zones is increasing, and the imagination of the program is becoming more significant. My expectation is that zones will continue to increase. And I hope they will affect the national economy policy too, so what I would really like to see is the transfer of policies in the zones

into the national governments. Then we will have another problem of measuring if it's once a zone's policy that becomes a national policy.

**Yin Xiangshuo:** I think your organization will have more roles to play rather than a simply meeting place.

**Graham Mather:** In Dubai, a new organization has been established called the "World Free Zone Organization" which is designed to be a membership lobby which can have a permanent secretariat and can engage with the international agencies more systematically, and make the case for free zones and promote them. I hope it succeeds; if it does it could be another valuable player around the world's stage which is promoting the lessons of zones.

**Yin Xiangshuo:** Could you say a few words for the Shanghai Forum?

**Graham Mather:** It's been a great pleasure to come to the Shanghai Forum, the keynote sessions are far-reaching, original, imaginative with really distinguished economists and significant colleagues. I believe it brings together thoughtful people in a medium-long term perspective and in a very open-minded way. There has been no equivocation, people have said what they feel, and they have been quite bold in their ideas which I think is a quite tribute to the forum.

## Current Situation in the Asia Pacific and China's Asia-Pacific Policy

**Sha Zukang**

Former Under-Secretary-General for Economic and Social Affairs, United Nations;  
Honorary Dean, Institute of International Studies, Fudan University, China

- Interviewer: Wu Xinbo (Executive Dean, Institute of International Studies, Fudan University; Vice Dean, Fudan Development Institute)  
Editor: Liu Luxi



**Wu Xinbo:** Good morning, Mr. Sha. Thank you for taking our high-end interview. Today we are going to talk about current situation in the Asia Pacific and China's Asia-Pacific Policy. First of all, I would like to hear your judgement on the Asia-Pacific general situation.

**Sha Zukang:** I would like to elaborate this question in the following aspects. Firstly, in terms of economic situation now, the Asia-Pacific situation is satisfying compared to other regions especially after the global financial crisis. The Asia-Pacific area has maintained economic vitality and driven the global economic development in some degree. Secondly, the political situation is generally fine. Since China's reform and opening up, some cooperative mechanisms have been established with Chinese promotion and joint efforts, summits such as APEC, China-ASEAN summit have been gradually put into operation to promote the understanding among different countries which still needs to be further improved. Thirdly, the issue of security conflicts stands out in this region, e.g. Diaoyu Islands issue between China and Japan has been on edge as a great concern internationally. Moreover, China's relations with the Philippines and Vietnam to some extent bring negative impact. To sum up, the general situation in the Asia Pacific is peaceful and stable compared to other regions around the world.

**Wu Xinbo:** Now China's rapid development and the drifting balance of power in APAC are overarching concern for all over the world in terms of APAC situation. Perhaps China is going to play an outstanding role in the development of APAC situation. What is your opinion of current and future China's role in the development of APAC situation?

**Sha Zukang:** China is the biggest developing country of the whole world both in scale and rate of growth. As Premier Li mentioned, during the last 3 decades, China has made the achievement of reform that took developed countries centuries to accomplish, which I am all for. It is universally recognized that China's own growth has promoted the economic development not only in APAC but around the world. The prospect of China's economic development is still bright in my view. But some uncertainties still lie ahead such as how far our political and economic transformation will go. Besides, the developed countries' attitude like US, EU towards China's rise also counts from the side of external

relations. Also we are obliged to make our neighbors understand the situation of China's peaceful development and rise, which also needs mutual cooperation. In this case, each side especially China has long way to go.

**Wu Xinbo:** That is to say, diplomatic relations between China and other countries in APAC is not one-way but also depends on how other countries deal with China's rise and development, major interest and core interest. So what do you think are the most crucial points in China's Asia-Pacific policy?

**Sha Zukang:** Our policy is correct on the whole. As we all know, the good neighbor foreign policy proposed by the previous government has made great achievement as well as a few problems. Let me take the China-Japan issue as an example. To be honest, China-Japan relations are not as well as before, even bottom out after restoring diplomatic ties. As to Korean nuclear issue, three principles has always been upheld, i.e. denuclearization of the Korean Peninsula, resolve the issue through peaceful negotiation and maintain the peaceful and stable Korean Peninsula. The result is we did what we made commitment to do, but the effect is not as good as we expected. North Korea was a nuclear-free country at best with ambition and desire to develop nuclear weapons. Now it turned out be a nuclear state. Due to this issue, Japanese government has announced to do constitutional amendment for strengthening its national defense. The United States also has intensified its military influence in APAC in accordance with its rebalance strategy. South Korea holds great concerns about it. The influence of Japan and US has intensified the nuclear issue to some extent. Russia as our neighbor has good relationship with China but its relationship with Japan is not at the best time. Then let us talk about Southeast Asia situation. At present, our relationship with Philippines is getting worse, resulting in ASEAN's split. Some countries do not agree or support the Philippines and even are against it. But some others such as Vietnam support it. In this situation, we can see what problems we have now. Then we move to Vietnam. Our relationship with Vietnam is exactly worse than before, and even exclusion happens after China-Vietnam War, which is unexpected for us. As to the South Asia, the situation is good in general. We have taken great efforts to improve our relationship with India and Pakistan. In a word, some issues need to be resolved in East Asia, Southeast Asia and South Asia. The only good news is that the Middle Asia situation is getting better now.

Generally speaking there are positive and negative aspects

ahead that we are supposed to deal with. Words alone are no proof. We are obliged to implement the good neighbor foreign policy based on past experience and strategy. As the Chinese old saying goes, "Who gain the common aspiration of the people, who can rule the world". We should implement our policy seriously, meticulously and practically. It is not proper to mention diplomacy deficiency, but from our side, we should analyze our situation and carry out reform measures.

On the other hand, the diplomacy is not one-way but needs external cooperation, i.e. we should try our best to implement some policies and measures in terms of specific circumstances. In this regard, we should be more realistic. China is the biggest developing country but we should know our limitations. Never had a country, no matter how powerful it is, could work independently in the context of economic globalization. But at least we should try our best to do it. We should think about more details about the good neighbor policy. For instance, we should give more and get less from the Pacific Asia's developed states like Japan and Australia. In terms of different countries and their uniqueness, we should treat and benefit them differently. Apart from taking tolerance policy towards other states, we should keep us independent. After all, any policy of Chinese government serves Chinese people first, then we should communicate with the world especially our neighbors to realize our objectives. So we should further subdivide our policy by definitions and classifications. Mr. Lu Xun once said that we should reveal ourselves relentlessly. For now, our policy has entered a phase requiring carefully review and summarize, and so as to keep moving forward. A proper view of interest is now forming: we need benefit ourselves, and meanwhile benefit others. There is also a big transition in our diplomacy idea, a strategic change. From drafting to the specific conducting of the policy, I am very encouraged by the work we have done so far. But I'm getting old. How I wish I could be ten years younger and go to the first line again to make a contribution.

And I'd add one thing. Now we have a lot of problems, caused by many reasons, yet the most fundamental reason lies in the rapid development of China. There's nothing wrong for a rapid growth, but the long continuous development has produced a series of problems. In this sense, our problems are of our own making, are growing pains, and we should be happy for this, since the frustrations brought by difficulties in the progress are totally different from that by the stagnation or retreat.

**Wu Xinbo:** So let's go back to the Asia-Pacific policy we mentioned before. A major issue

plaguing us now is the disputes on maritime sovereignty and rights that left over by history. We have 14 neighboring countries sharing land border with us, with 12 of which, mainly through mutual understanding and accommodation by diplomatic negotiations, we have settled territorial disputes. To what extent do you think that our experience of settling these border disputes could be used to solve the maritime issue?

**Sha Zukang:** Territorial issue, no matter land or maritime, always caused great public concern. It is a family property left by our ancestors, and we descendants should solve it properly. This is true for us Chinese, and so is the same for them foreigners. We should stand in each other's shoes on this issue. Back to one hundred million years ago, who owns the earth? It belongs to on one. In fact, since we have history recorded, to take Europe as an example, does it ever have a fixed boundary? Never. The history of Europe is a history of wars. And the five thousand years' history of China, to be honest, is full of domestic wars. Firstly, the territorial issue is sensitive, and it will easily incite radical nationalism and patriotism. We all have no objection to this. It is sensitive for China, and so it is for the other side. Secondly, the territory is not eternal. You may feel "none of my business" towards current disputes between the US and Russia on oil and gas. But when you open the history book, you will find out that the area once belonged to China. Please don't get me wrong. This is by no means to say that we should take that area back, not at all. There is only one thing I'd like to point out: the territory is sacrosanct, but it could be adjusted. Borders are changing. About sixty to seventy years ago Mongolia was still a part of China, right? Thus in the past, no one can settle territory and territorial waters disputes without the war and the winner takes it all. So, over the past century the Maritime Law and International Law were produced and are all dominated by western countries. Today, considering the nuclear weapon and its launch vehicles, the world is at the stage where wars, to be a little exaggerated, could lead to the destruction of human beings and the earth. Therefore we should avoid using war to settle territorial disputes. You say the local war may work, but how can you make sure it won't get expanded? Can you control it? Or can the other party control it? So that is why China proposes to peacefully settle the disputes. This is neither to surrender, nor is Chinese government weak. In my opinion, to solve land or maritime territorial issues by wars is unrealistic and infeasible. Now that the non-peaceful means is excluded, only the peaceful means is left. So we only have one way that to both take and give on a basis of mutual understanding and accommodation. However,

it happens sometimes you want to solve it peacefully based on mutual understanding, while the other doesn't. We should focusing 100% on maintaining peace, and meanwhile get well prepared with 200% energy to face the situation when the other party chooses a non-peaceful way. In order to get a peaceful solution, we must have enough strength to tell the other party: the peaceful settlement is your only choice. If you insist on adopting non-peaceful means, sorry, I'm afraid that you'd better think twice. So I say there should be two 100%. In this sense, it is a must for us to strengthen China's military modernization indefatigably. So President Xi Jinping says, the army should be able to fight and win. Why? It is the best way to prevent wars, enhance the negotiation ability to settle disputes peacefully, and to make the other party consider choosing such a path.

**Wu Xinbo:** In our Asia-Pacific Policy and neighboring diplomacy, the U.S. factors are important. The U.S. often makes our surrounding security environment and neighborhood policy complicated. How do you think we should deal with the U.S. factors in our neighboring diplomacy?

**Sha Zukang:** I have dealt with U.S.A. for decades. It is bare, a real hegemony, never plays virtual and acts as a tyrant with its muscles. I love reading Kungfu novels, and I know that, no matter how superb your martial art is, you have a vital gate. Once I find where the vital gate is, I can defeat you anyway. We should be confident on this. The U.S. is not born a superpower. It was a British colony, so there was the War of Independence. It also experienced the Civil War. It was still a poor developing country at that time, while it becomes a superpower for the moment. Through their efforts, Americans judged the hour and sized up the situation, adopted a correct strategy from maintaining basic benefits of the U.S. in the WWI and WWII, and obtained the maximum benefits with minimum sacrifice. Consequently, today's place and influence of the U.S. owes to the correct strategy and the efforts and sweat of politicians. We should learn to think empathy. Now the U.S. is trying so hard to maintain and extend its superpower and leader position. But with the huge historical vicissitudes, the development of China has caused a panic in United States from the heart. In order to keep its position, it intends to expand and to contain China. USA is a practical country: it has dreams but also pretty realistic. It has such kind of thought is understandable, while its ability fails to keep up. What's more, with globalization developing, every country is inextricably interwoven with each other. Certainly the United States still takes the lead, but in the context of global society, its influence gets relatively smaller. In

current international situations, the U.S. is relatively restrained, for instance, on Syria chemical weapons and North Korea nuclear issues, and it also need to adopt a most favorable measure according to its strength and the risk. America has its concerns, while China has its own traditions. Like President Xi Jinping said, Chinese people has no expansion gene in history--indeed we don't have any, otherwise we should have had expanded our territory long ago, or Zheng He' voyages should have been an expedition to occupy other countries. The Chinese nation is a peace-loving nation. With a good image of a kind and wise elder, the nation is particularly inclusive and friendly, and stressing virtue and morality. I think we lack domineering, and we are benevolent. The Pacific Ocean has connected China and the United States closely, and President Xi says that the Ocean is big enough to contain both of our countries. Based on the above, I deem that Sino-US cooperation is totally feasible. Besides, under the new historical conditions, e.g. globalization, information technology, nuclear weapon development, etc., China has timely proposed a new pattern of relationship between big powers. The United States has no other choice but to accept it, since this policy is in line with American interests, and of course, also in line with China's interests, as well as the interests of the region and other countries all over the world. It is clear to all that the development of China is unstoppable. Different from those in Western countries, we have opened a Chinese-culture-based characteristic economic development mode and road. It could be taken as reference by other countries, but should never be copied blindly. The new pattern of big power relationship policy is proposed on the basis of a mutual understanding of Sino-US relations, the recognition of our own strengths and weaknesses, and the need for common interests. Regardless of the U.S. presidential elections and government transitions, the benefit of the United States is unchanging. China also firmly safeguards its interests, and this is the same. We two countries should not be troubled by the change of governments. For me, Sino-US relation is mixed with love and hate feelings. The key point is that when should we love and when should we hate; how much should we love and how much should we hate: it is depending on situations. To what extent could Sino-US relations be good, and to the same extent it could turn bad; good relations would turn worse, while bad ones would get better. China and America are two great nations, and are capable of dealing with Sino-US relations. We have such wisdom. We should be confident on this.

**Wu Xinbo:** Well, thanks so much for Ambassador Sha to accept the interview of Shanghai Forum. It is the first time for you and your wife to attend

Shanghai Forum, and could you please give us some suggestions or expectations on our future work? Please send a word for Shanghai Forum.

**Sha Zukang:** Shanghai Forum has been held nine times and accumulated a lot of experience. The professional preparation, good selected targeted questions, and in-depth discussions are all great, and sure there is still some room for improvement. Generally speaking it is quite good. I have attended and organized international conferences for decades, and have organized the 2012 Sustainable Development Summit in Brazil, the largest and highest-level conference in UN history as called by Mr. Ban Ki-Moon. So I am qualified to say that Shanghai Forum is indeed an excellent forum. If you ask me to send a word for it, then I should say: Shanghai Forum is very good, and I believe it will be better and better.



## Internationalization of RMB

**Yves Mersch**

Executive Board Member, European Central Bank

■ Interviewer: Xu Xian ( Director, China Insurance and Social Security Research Center, Fudan University)  
Editor: Liang Danyi



**Xu Xian:** I would like to thank you for coming to Fudan to attend Shanghai Forum. Today, most of my questions would be regarding the internationalization of the Chinese currency. So, I would like to know at the beginning, which role do you think the Chinese currency plays in the international currency system?

**Yves Mersch:** It can only be a growing road, and that is also why I have also been keen to come to the Shanghai Forum, and why I am also keen to come back to Shanghai to see the possibilities and development because Shanghai plays an outstanding role in this development of the internationalization of its currency. And we have most recently seen the opening of direct trading in Shanghai between the euro and RMB, and I think this is very important development since it is a development that is in the dream of opening up the Chinese currency. Let me say why I believe that the Chinese currency is asked to play a growing role internationally. China represents 9 percent of global trade, second only to the US. And there have been already expectations that by next year one third of the trade will be done in its own currency.

**Xu Xian:** Yeah. Okay. We all know that the EU is very successful to launch the euro currency. Do you think there is any experience China can learn from the EU experience?

**Yves Mersch:** I think there is one area where I think euro's successful experience can assist the drive for opening up the Chinese currency, and that is the experience in deepening and integrating markets. You know that euro authorities wanted to diversify the products which are denominated in RMB. They want to deepen the capital market. We have seen recently that bond issue along a whole series of maturities have increased, and for that you also need very efficient payment infrastructure systems, and that is the area where I would say Europe also offers some experience it can share with China. And also it will be interesting for China not to only depend on a product and know-how that is coming from the most developed capitalist area: the US, but also seeing how resilient European infrastructure payment systems have been during the crisis, and this could be an area of the strongest cooperation in the future between China and Europe.

**Xu Xian:** There are many talks in China stating that the internationalization of the Chinese currency will provide some opportunities. But today I will ask you questions from another angle: which recent challenges do you think the internationalization of the Chinese currency is facing?

**Yves Mersch:** Well, I have said already in the past during conferences concerning the internationalization of the RMB that this does not come without challenges. We should also not expect that there would not be increased volatility, and have again a sense that it would not be a one-way direction with the currency, but it would really be a two-way risk, and I think this is part of the intention: You want to internationalize, you expose yourself to more volatility, and in that respect, the price also is more accurate and you will have in the end the market forces taking over larger roles in purely centrally directed capital markets. And I think that would in the end be a better allocation of capital. A better allocation of capital will increase the sustainability of long-term growth, and in the case of China, I think will it also contribute to diversifying the product market to allow also a more smooth transition from the rural population to the urban population, which is also I think part of the intention of the authorities.

**Xu Xian:** Okay, so my next question is how will the internationalization of the Chinese currency affect the Chinese economy and the European economy and the world economy?

**Yves Mersch:** There will be a larger integration of the Chinese economy and the global economy, and therefore direction would be facilitated and also not only trade but also in and outward investment. And I have mentioned yesterday the figures of the share of Chinese in and outward investment that is rapidly growing, and I think that again will contribute not only to addressing the issue of global imbalances, but it will also allow a better rebalancing of the Chinese domestic economy.

**Xu Xian:** Thank you. You know that Frankfurt is the financial centre of Europe, and Shanghai is the financial centre in China. Do you think the internationalization of the Chinese currency will provide some opportunities for both the cities?

**Yves Mersch:** Any internationalization is always to the benefits of both sides. Just as China has different financial centers, Europe also has different financial centers, each having their comparative advantage, and each is also to some extent closely inter-related. And you know that the offshore RMB are not only limited to Frankfurt, you also have within Europe area Luxemburg, which is close to many Chinese banks. You have Paris, which mentioned that they wanted to play a role as well. And you have of course also London, but it's outside euro area, obviously. I would even add on that beyond the financial centers,

you also would have to develop contact with academia. And from that point of view, I also see the close relation between your university and other good universities. Other universities also have collaboration between them, for example, the University of Luxemburg has contact with universities in France and many other countries. So I think this shows that trade, finance and academia are forerunners of ever-closer cooperation.

**Xu Xian:** Do you have any recommendations about what research can be done in this area?

**Yves Mersch:** I think the area where we have the most in common is our structures. And in the area which I am more closely following: climate and financial stability, I think the Chinese economy is also largely financed by the banking system, so does the capital market. So in the area of the consequences of this in terms of regulation of credential civilians and end of monetary policy, I think both Europe and China will probably have more interest in looking into the credit aggregates in the old-fashioned style, which have to some extent been abandoned in the US. I think this is an area where I believe that in the future we could exchange, and certainly in areas like financial stability, the use of macro-credential instruments I think we can also exchange in the future.

**Xu Xian:** Thank you for the recommendation. I am an insurance professor, so my last question is whether the insurance industry in European countries is working close with the ECB?

**Yves Mersch:** I think the insurance industry and also the pension fund industry will have to play an increasingly important role in the future. So far, in the process of the de-risking of the banking system, the banks will increasingly have problems in terms of managing their maturity mismatch, and they will be increasingly having problems to ensure long-term financing, which is exactly where insurance and the pension fund will come in to finance long-term financing in and out of the economy. And I think this is also something that may play a larger role in China because what is improper shadow banking system includes also insurance and pension funds. I think the share of financing the economy of this non-bank financing will have to increase in the future, and we have to monitor this very closely.

**Xu Xian:** Okay. Thank you

**Yves Mersch:** Thank you very much.

## Confidence and Innovation Are the Foundation and Driving Force for Sustainable Development

**Pauline van der Meer Mohr**

President, Erasmus University Rotterdam, Netherlands

- Interviewer: Ding Chun ( Professor, Institute of World Economy, Fudan University; Director, Centre for European Studies)  
Editor: Laura Natrop



**Ding Chun:** We all know you lead one of the most famous universities in Netherlands. Especially concerning subjects like economics, management, law and medicine your university enjoys a very good reputation in the world. Furthermore the first winner of the Nobel Prize in Economics attended your school of economics. Could you give us a very brief introduction about the University?

**Pauline van der Meer Mohr:** Indeed you are very well informed .That is indeed the brief introduction of our University, however, I don't think that the other Universities in the Netherlands would agree that Erasmus University is the most famous one. But I am very pleased of course that you suggest so. We have 14 Universities in the Netherlands and Erasmus University is one of them. They're all research universities and all of them are excellent and all of them feature in the top 200 of the world ranking, which is actually quite a phenomenon if you consider that all universities in one country are all excellent. But having said that we are all very proud of Erasmus University. It was started 100 years ago by three businessmen who saw the need for a school of commerce. It then gradually grew into a full fetched university, but with a very strong social profile. So economics, business, law and governance questions on the one hand and health and public health questions on the other hand. Those are the two main areas of the profile of Erasmus University and that's what it's most known for. Plus, as you rightly reminded me of Jan Tinbergen, our famous Nobel Laureate, who we are of course very proud of.

**Ding Chun:** Here in China we discuss about education a lot, could you tell us what your philosophy is on education, especially higher education?

**Pauline van der Meer Mohr:** First of all what we see in the Netherlands is that the proportion of students that enjoys higher education in the Netherlands nowadays, is almost 50 %. So in the age range of 18-23 years old almost 50% of the Dutch population enjoys tertiary education, so that's of both vocational and university levels. That is a pretty high proportion. It's a small country of course but still, it made us think what does it mean if such a high proportion of your population enjoys higher education? Surely not everyone can be as excellent as that, so does it mean that the university begins to differentiate so will accept some people and reject others or do you try to be more inclusive?

The Netherlands has a very inclusive policy so it's different from for example the UK or China which are more selective. In the Netherlands the idea is that, once you completed your secondary education, you have an entry ticket that entitles you to university education in principle. Having said that what happens if 50% of your population goes to university? They cannot all be equally excellent. So over the last 20 years, Dutch Universities have really struggled with success rates. A lot of students were basically not able to complete their bachelor or master education and we lost a lot of students. So what we have done in Erasmus University Rotterdam is that we have completely changed our curriculum to make sure that the students see our first year as the selective year. Whereas we are not very selective at the gate, we are very selective after the gate so the first year you have to earn all the credits or you have to leave. That is quite extraordinary in the Dutch context because no other university is that strict on students having to earn all of their credits in the first year. The result is that students work better, are much more focused and much more disciplined, they make their deadlines and have limited re-sits. As a result they begin to perform much better than in the past, so I think it is an aspect of our educational philosophy that has really made a difference for our students. Funnily enough we were concerned initially that because of that philosophy students didn't want to come to Rotterdam anymore since they would have to work too hard, but interestingly you see it's quite the opposite. Actually students are attracted by the challenge of having to perform right from day one. Because that is what they get when they come to other universities. When they come to Fudan, they just have to work from day one there is no way out. It's not optional. You have to perform. Students enjoy that, they rise to the challenge and they become better students.

**Ding Chun:** So that means you need hard working and here we always say that competition provides for efficiency. What's your philosophy about pushing or engaging the ability of innovation for your staff and colleagues? Especially younger scholars and staff?

**Pauline van der Meer Mohr:** Well there are lots of aspects of innovation of course but let me just highlight two. One is of course that the staff needs to be more and more internationally engaged. That means that we

expect them to go abroad much more than they did in the past. We expect them to learn English so all of them have to be fluent in English which can be a bit of an issue with the older staff but the younger staff it's not so much of an issue. More importantly we expect that they are innovative when it comes to integrating information and communication technology into their curriculum. So we have really flipped the classroom, whereas in the past we had 900 undergraduate students attending a lecture for 2 hours, now we are taping the lectures and students will listen to them in their own time, even when they are jogging with their iPods, they can listen to the podcasts. When they then come to the actual classroom they don't just sit and listen but they fully engage around the topic that they have to study, with other students because they learn as much from other students as they learn from the faculty, but also with the faculty. Therefore the whole philosophy is becoming much more engaging, but that means for the faculty also that they have to change their own thinking and become more innovative in the way they are delivering their materials. Gone are the days where they could just recycle their PowerPoint, they now have to become much more engaged with themselves and with their students. They also have to involve actual problems, because we have a problem based learning approach in Rotterdam.

**Ding Chun:** Fudan is Erasmus University's partner university, can you say some words about our students?

**Pauline van der Meer Mohr:** They are fantastic, they are wonderful! We have around 500 Chinese students at the moment and a lot of them come from Fudan, and they are so motivated, they are very intelligent, they are incredibly hardworking, they work harder than anyone else and they adapt very well to the world in the Netherlands and to Rotterdam. Having said that Rotterdam is a very easy place for the Chinese students to live and work because it is a metropolis which most of them are used to live in. It has a nice urban relaxed atmosphere as well, with a lot of green and everybody cycles, Chinese students are not afraid of cycling so they adapt very well. They perform extremely well. We do find that they are very polite so many of them are used to listening to their teachers and respecting their teachers and elders and seniors. Clearly they have grown up in a culture that values seniority and teachers. We do teach them to speak up and to be

proactive, encourage them to think for themselves and be autonomous in their thinking and we try to teach them the first values of skepticism in research. We sometimes fear that when we send them back to China they find it difficult to go back to the old culture but on the other hand we secretly think that they become better researchers as a result. But they do extremely well, we are very happy to have them and we welcome many more.

**Ding Chun:** You may know that we have a center for Dutch studies here at Fudan. Do you have any recommendations for the activities or staff?

**Pauline van der Meer Mohr:** First of all you must come to visit Holland. That should be compulsory if you have a center for Dutch Studies. You cannot study Dutch culture or language or business or anything from only being in China so you need to come over and we would welcome you wholeheartedly. So that would be my first recommendation, come and see for yourself. A lot of Dutch Universities do have Chinese study groups and they always encourage students to spend some time in China because how else can you learn? I am always surprised and humbled to learn that there are Chinese students who are interested in studying the Netherlands. Why would you? It's such a small country! And you have billion people and we have around 16 million! So I am always humbled to learn that there are people interested enough in our country and in our culture to study it so we are grateful to anyone who is interested enough in our country and we welcome you any time!

**Ding Chun:** After the crisis in Europe there is now also an appeal for the so-called smart growth, meaning more innovation based policies. Could you comment on the recent economic situation in the EU?

**Pauline van der Meer Mohr:** I am not sure if I am qualified to comment on that but let me give you my personal perspective, I think Europe is still gradually and very slowly coming out of the crisis. I think some politicians will tell you that the worst is over, but I'm not so sure that it is. If I look at the banks, they have slowly recapitalized but there not quite there yet and their buffers are not nearly as strong as they should be. Some very prominent economists claim that a large proportion of European banks are actually zombie banks if you think

about it and many of them would not meet the stress test. It depends on how you define a stress test of course. So we're seeing very slow recovery at the banks and a very slow recovery of industry. Industry suffers a lot from exchange rate problems still. Their profits stay behind industrial expectations. And the worst thing is that consumer trust is not back to the levels were it was pre-crisis, and I think that will take a long time. Politicians don't always play a very helpful role there because as long as politicians keep telling their voters that they cannot trust anyone, especially not the bankers. This is also a point Robert Shiller made in the opening ceremony of the Shanghai Forum, everybody hates bankers these days and politicians make it worse by using rhetoric to that fact so that people begin to hate bankers with a deep passion whereas actually the financial industry is incredibly important. It's the oil for the economy, so unless we start trusting each other again and unless we start trusting financial institutions and large conglomerate businesses, the economy will remain at a grinding hold. So trust is a really difficult issue to tackle because even if all the fundamentals were right it would be hard to mend the broken trust in the European economy. Additionally there is a big issue around the topic of European integration, we just had the European elections, there's a very strong voice in Europe, saying that the European Union is basically a failure and we should allow it to fall apart. I think that's a very dangerous voice, it is a very strong voice so we have to deal with it, but there is no way back once you've set out to become a European Union, there's only one way and that is the way forward. So we cannot do without the euro, we cannot do without a fiscal union, we cannot do without a political union really. We've completed the economic union but we haven't completed the political union and I think we do need to move forward there.

**Ding Chun:** As you mentioned there is an increase of European skeptical parties and at the same time there's crisis of European confidence. I think integration is a good thing not only for Europe but also for China and the world. You are not only a very excellent academic but also a good practitioner so I would like to hear your opinion on the building of banking union.

**Pauline van der Meer Mohr:** I think the banking union has a lot of complexities. It's important that we get there,

but the way has a lot of complexities. Again I'm not an expert on the banking union at all but I think we need to move quickly to a form of European integration, also when it comes to banking supervision. Ideally you would have a global system of banking supervision but I think that's probably one step too far but at least at the European level there needs to be a level playing field but that'll be hard enough in itself to achieve.

**Ding Chun:** Since 1979, Rotterdam and Shanghai are sister cities. You are here at the Shanghai Forum to talk about the port of city of Rotterdam. So could you please give us a brief introduction about Rotterdam?

**Pauline van der Meer Mohr:** Rotterdam is indeed a port city as Shanghai is. When I went to school, many years ago, I learned that the port of Rotterdam ranks number one in the world. And now decades later, Rotterdam is, depending on the measures you take, around number 9, 10 or 11 in the world and has been overtaken by at least eight Chinese ports.

**Ding Chun:** But still number one in Europe!

**Pauline van der Meer Mohr:** Yes you're right, still number one in Europe but the interesting thing is that if you measure in purely quantitative terms, so in pure terms of tonnage and so on, all the Chinese ports are bigger. However, the Dutch port still contributes very much to the competitiveness of Holland as a nation. So if you look at the world competitiveness index, Holland ranked number eight. China ranks number 28. So I think China has still a way to go in improving its competitiveness and I think the secret of the Dutch success is that it doesn't only look at quantitative determinants of competitiveness but also at qualitative terms. For example, social innovation is just as important as technological innovation. Social innovation has got to do with things like the rule of law, trust in authorities, innovative tax and customs regulations, a high level of education in an area, and factors like health and environmental issues also become increasingly more important. All of that taken together make sure that the infrastructure in Holland is very tight, very efficient and very innovative and that leads to a higher place in the world ranking for competitiveness.

**Ding Chun:** You have discussed the Shanghai Pilot Free Trade Zone (SPFTZ) during the closing ceremony of the Shanghai Forum. Could you give some comments or suggestions to this kind of experiment in Shanghai?

**Pauline van der Meer Mohr:** I think it's a very interesting experiment. The reason why Shanghai is so interesting is because in Europe we have been seeing that free trade zones are becoming less and less popular. We used to have them in the past but we're now abolishing them, for several reasons. One of them is the European Union in and of itself being almost a free trade zone. That is of course only within the EU. When you are a farmer in Africa, you wouldn't see this as a free trade zone at all, because you have huge trade barriers of course. Within the EU zone, there is some sort of a free trade zone. But also the free trade zone was becoming very strict in terms of regulation, customs and transports of shipping goods. Because of the strict regulations, it was almost easier to abolish the free trade zone and to look at other ways of innovation such as safe and secure trade lanes and to find the entire value chain rather than looking at firm certification or firm taxation and customs duties. So those innovations helped the port of Rotterdam and I would be very interested to see how the Free trade zone in Shanghai is developing. Because I think as we learned at the Shanghai Forum, the SPFTZ is very acutely aware that it is not just about free trade but it is also about connecting Shanghai to the rest of mainland China, it is also about government reform, it is also about regulatory reform, it is also about the rule of law and forms of arbitration, reliable systems and structures of processes, reliable government, and also probably about sustainability. I think sustainability is also becoming more and more of an issue for China as a whole and it will be also for the Shanghai free trade zone.

**Ding Chun:** As you mentioned in this experiment we need quite some structural reforms, especially in the fields of law and regulations. We also have laws about joint ventures or foreign investors. Do you have some suggestions to this field?

**Pauline van der Meer Mohr:** As a lawyer I would say having a rule of law, a solid arbitration and having a legal system is always a good thing because that inspires trust and confidence in foreign investments.

So my suggestion would be to, on the one hand, look for what would be sort of a minimum international standard, to inspire their confidence. On the other hand, stay true to your background, to what made you big in the first place. This is actually one of the things I like so much about China, as opposed to for example the more litigious societies in the world, namely that your trust based society is actually very efficient when it comes to signing agreements and making deals. You don't have to bring a whole battalion of lawyers to a deal negotiation. You build trust first and then you do business and I think that is very efficient. The more litigious societies who have one lawyer for every twenty people don't appreciate as much how important it is to be able to do that much business based on trust. So my recommendation would be to keep the trust based in your society. That is very precious and once you lose it, it is very hard to find it back. You can lose it overnight and you can spend ages trying to build it up again. Plus, if you lose it, then you will move to a US system which is highly litigious with lots of lawyers where you cannot move without an ambulance chaser behind you. I think if the US were to design their legal system from scratch today, they would not choose a litigious society as they created over time. I think secretly that they're actually quite envious of your trust based society. So I would say keep the trust base but build a minimum level of international standards of rule of law that international firms can rely on.

**Ding Chun:** We all know that you have a very excellent career in the field of academics as well as in business matters. Could you tell us as a very successful female, what's the secret behind this? People always talk about disadvantages of being a leading female what's your opinion?

**Pauline van der Meer Mohr:** Well this could be a very long conversation of course. Actually, there aren't that many leading business or academic women in the Netherlands either. If I look at the entire European Union, Holland is actually doing not so well at all, so for example in my university only 15 % of the professors are female whereas I would like it to be 50% of course but we are very far away from that particular point in time. The same counts for women in international business in senior management roles. Holland is really lagging behind there and there's lots of reasons why

that is the case. One of them is that there is a part-time work culture in the Netherlands. Women, when having children, choose to work only part-time and spend some time with their children and some time in their profession. As a result, they grow up less fast in their careers than their male competitors and by the time, for example in academia, when they are up for tenure, their male competitors will have done much more, and will have published much more. So we have to begin to make allowances for that fact but that's a hard sell in academia. Because in the end your age index is what counts when it comes to professorial appointment. So we have quite a way to go. Does it have advantages to be a woman in a men's world? Sure, it does. I mean everybody sees you so it's not very hard to get your voice heard. And your style is different, also that has advantages and disadvantages incidentally because sometimes people don't understand that style. You have to put a little more energy into your work. Is there a recipe for success? No there isn't, it's different for everyone. For me the recipe was to work hard and wherever there is an opportunity, be sure to grab it. Don't be shy. Don't be afraid to grab the opportunity. Don't be afraid to take risks. Sometimes the opportunity will be risky and your gut feel will say "ooh am I ready to do this", maybe not but let's try it anyway. Be prepared to experiment, take some risks, and find a few people that can support you. Support in the family is very important. Because if your family doesn't support what you're doing, then you have big troubles. And also support in the workplace. I've always been surrounded by people who were happy to help me if I needed it. That's what I'm also trying to do that now for the people that work with me. If I see they're struggling in their career, I'm trying to help them develop to their full potential. There is nothing more satisfying to me, more rewarding, than to see young talent, being male or female talent, growing and developing to their full potential.

Feedback & Suggestions

The Shanghai Forum (2014) aroused a strong reaction among its guests, some of whom expressed their gratitude to the organization work and expectations of the Forum's future development through letters.

**Robert J. Shiller**

*Sterling Professor of Economics, Yale University, USA; 2013 Nobel Laureate in Economics*

The Shanghai Forum 2014 provided me with a wonderful opportunity to expand horizon, share idea, and make new friends. It is a truly memorable event.

**Adam Posen**

*President, Peterson Institute for International Economics, USA*

It is my great opportunity to participate in the 2014 Shanghai Forum. It is a world famous high level gathering, building on Fudan University's quality and Shanghai's excitement.

**Graham Mather**

*Chairman, World Free Zone Convention*

My congratulation on the breadth of scholarship, openness of discussion and interesting and original ideas which prevail at the Shanghai Forum. It is an excellent high level discussion opportunity for international leaders.

**David R. Mares**

*Professor of Political Science University of California, San Diego*

I consider your publication a key impact to the deepening of our exchange in areas where the Chinese and European economic structure of finance in the economy have so much in common.

**Sha Zukang**

*Former Under-Secretary-General for Economic and Social Affairs, United Nations; Honorary Dean, Institute of International Studies, Fudan University, China*

It is a great event which makes me believe that the Forum would get better in the future. I am looking forward to seeing the involvement and contribution of various parties to the Shanghai Forum.

**Pauline van der Meer Mohr**

*President, Erasmus University Rotterdam, Netherlands*

Thank you, Shanghai Forum, for organizing 3 inspiring and insightful days. I continue to be impressed by your dedication, knowledge and ability to cast a wonderful line-up of characters! All the best and I hope to be back next year.

**Yves Mersch**

*Executive Board Member, European Central Bank*

I would like to express my admiration to the determination of the Forum to contribute determinedly to the integration of the Chinese economy into the world economy in order to reclaim the place that is due to China in view of its history and its dynamism.



**Michael Grubb**

*Professor, International Energy and Climate Change Policy, Institute of Sustainable Resources, University College London (UCL); Editor-in-Chief, Climate Policy journal, UK*

It's my first time at Shanghai Forum – a great experience, and it won't be my last! Thanks and Congratulations.

**Liu Ligang**

*Chief Economist for Greater China, Australia and New Zealand Banking Group (ANZ)*

Wish the Shanghai Forum more successful, insightful and powerful in its tenth annual conference next year!

**Xie Yonghai**

*Vice President, Hong Kong Bank of China International Co. Ltd*

Shanghai Forum is a great platform where global talents gather together to contribute viewpoints concerning current social affairs and draw blueprint for China's future development.



## Perspective Highlights

During the Shanghai Forum (2014), the Organizing Committee issued academic bulletins after each session, based on which the Shanghai Forum (2013) Perspectives Highlights was completed before the closing ceremony as timely feedback of the meeting's latest discussion results. Here we choose some typical views for your reference.

### Yves Mersch

01  
Perspective

*Member of the Executive Board, European Central Bank;  
Asian Economic High-level Roundtable Guest*

- European debt crisis may be a blessing in disguise. The European economy has been badly hit. But good policy options will lead Europe on the right track and avoid new risks. And the European economy is continuing to recover its strength and adheres to the correct policy options
- The shrinking of balance sheet in European banking industry has both positive and negative impacts on European economy. The crisis suspended the model of excessive debt financing in Europe. Deleveraging in Europe's banking system would reduce the supply of credit and affect the recovery process of European economy. However, the reform in banking sector will produce a positive impact on the reorganization of financial assets, improve the risk-bearing capacity and inject new impetus to the development of banking system in Europe, thus providing new opportunities for the future European capital markets
- The experience of crisis and recovery of European economy is worth learning for Asian countries. Europe will introduce further policy of integrating financing needs and asset securitization to solve the problem of insufficient financing channels. Sustainable development is crucial to both the recovering Europe and the fast-growing Asia

### Zhang Ping

02  
Perspective

*Research Fellow, Institute of Economics of the Chinese Academy of Social Sciences;  
China Economics Panel Guest*

#### *China's Growth and Structural Imbalance*

- A major difference between Chinese economy and economies of developed countries is that there exist many structural factors in Chinese economy. I think that Chinese economy has entered a phase of structural and non-cyclical slowdown
- The decomposition of GDP growth shows that although the growth of working age population maintains a high level, the contribution of labor participation rate has decreased from the peak, which indicates the gradual disappearing of demographic dividends
- The trend of relative expansion of the service sector is definite. However, the labor productivity in the service sector is lower than in the industrial sector. Thus, it is important to increase the labor productivity
- Compared with other countries, there is a severe bias towards capital in income distribution in China. The output elasticity of capital in China is about 0.7, which is about 0.3 in other countries. There will be a reversion of output elasticity in the future. Coupled with the slowdown of investment growth, it will lead to the slowdown of GDP growth
- The problem with Chinese economy is at the supply side, yet the current stimulus plans are concentrated on the demand side. There should be some reforms in the tax system



**Michael John Grubb**

03  
Perspective

*Professor, International Energy and Climate Change Policy, Institute of Sustainable Resources, University College London (UCL); Editor-in-Chief, Climate Policy journal; Energy Panel Guest*

- It is difficult to reduce the world average carbon-dioxide emission. It is because that the disparity of emission amount between countries is great. Those countries which have already completed their industrialization process have stable amount of carbon-dioxide emission. I also believe that there is a stable relationship between economic development and carbon-dioxide emission. However, the relationship is not significantly linear. As we have known, the share of coal consumption to the total energy consumption has been increasing in Europe. It is the market price that works in this circumstance. It also proves that market price cannot be always successful
- We should pay attention to the relationship between energy and strategy. The development of energy domain is strongly correlated to policy. So we should take consideration of the overall development of the market. We should take industrial strategy, instead of relying on the market solely. What we should know is that the effectiveness of energy strategy is limited and market pricing, as well as innovation is limited. We need to find a way to combine policy-making, market-pricing and technology innovation together. So that we can combine consumer demand with technology innovation through government and strategic investment

**Robert S. Ross**

05  
Perspective

*Professor, Department of Political Science, Boston College; Politics Panel Guest*

**New Situation in Asia-Pacific**

- We cannot apply the European history to the major-country relations or transfer of power in Asia
- It is definitely stupid to transfer power through wars. East Asia can surely avoid wars; however, this doesn't mean that the transfer of power will be peaceful
- China is making efforts from the following aspects. Firstly, China is improving its voice and power in the international community. Secondly, China is strengthening its relations with other countries

**Liu Ligang**

04  
Perspective

*Chief Economist for Greater China, Australia and New Zealand Banking Group (ANZ); Finance Policy Club Guest*

**Short-term economic outlook in China:**

- The growth rate of fixed asset investment down to 17%, and economic growth is slowing down
- CPI declines, so many people begin to worry about deflation
- From January, the Chinese government has forced to let RMB depreciate. China's foreign exchange must be allowed to fluctuate more freely in the future. Among Independent monetary policy, stable exchange rate, and free flow of capital, we can only achieve two goals. China needs an independent monetary policy and free capital flows, so China's foreign exchange must be allowed to fluctuate more freely in the future
- Real estate crash may not appear in China. If China can effectively solve a series of economic problems, I believe that China should not worry about the real estate bubble



**Daniel Gros**06  
Perspective

Director, Centre for European Policy Studies;  
World Economics Panel Guest

- From a population perspective, the fertility rate is the most important factor for economic growth
- China's future growth prospect of economy relates to educated population growth
- A national R & D investment to GDP ratio is relevant to education level
- Only capital is not enough to economic growth but human capital
- Human capital and R & D investment is very important for China and other Asian countries to across the middle-income trap
- Europe and China's population structure is similar, but the economic trend is different. Education level of Chinese newly added labor force is increasing, so the growth can be sustained, but it's different for Europe, the education level of newly added labor force is similar with the retiring

**Yang Yiyong**07  
Perspective

Director, Institute of Social Development  
Research, National Development & Reform  
Commission, China;  
Urbanology High-level Roundtable

**Patterns of Urbanization in Chinese Ethnic Areas**

- The urbanization of China needs national characteristics
- Urbanization should focus more on the urbanization of human being with human being instead of abstract labor concepts
- The migrants need more election rights to protect their interests
- The new driver of urbanization should be industry and companies, instead of the government
- The new city space will be more flat than ever, in order to facilitate people working at home

**Zhou Qiren**08  
Perspective

Dean, National School of Development,  
Peking University;  
China Economics Panel

**Growth's Quality, Not Its Speed, Should Come First**

- Although China's economic growth rate is very high, severe product quality problems exist. If the products are of good quality, a high growth speed is not necessary
- China has high investment rate, but the mechanism is a big problem, which leads to inefficient investment
- Economic indicators cannot automatically reflect the growth quality. If we analyze the growth without fully considering the quality, there will be a lot of problems
- At this stage, the growth quality should be listed before speed

**Zhao Xiaobin**09  
Perspective

Director, International Center for China  
Development Studies,  
The University of Hong Kong;  
Policy Panel Guest

- Digital technologies has changed the world. People used to live in villages, then they moved to cities, but now we live in digital world
- Manufacture industry has increasingly moved out from city .Cities has been digitalized and culture, creative and high-end service industry has become the major part of the cities
- The most important function of prime city is financial and high-end service industry and the second one is Cognition creation industry. Prime city will only emerge when the two part has integrated at one place



**Xu Jianfeng**

10  
Perspective

Director, Center for Cancer Genomics, Wake Forest School of Medicine;  
Health Panel Guest

**Public Health Genomics: Opportunities and Challenges for Targeted Cancer Screening**

- Current status of cancer screening: Family history is not sufficient
- Need for targeted cancer screening: Genetic risk score (GRS) for identifying high-risk subjects can supplement family history to personalized (genomic-targeted) cancer risk report
- Stakeholders of genomics of public health: Researchers in genomics and public health, government and policy makers, health economists, insurance companies, primary care physicians, genetic counselors and patients
- Opportunities and challenges of personalized cancer screening:
  - a) Genomics offers better and more cost-effective public health strategies
  - b) The impact is huge and complex
  - c) It is coming whether you are ready or not
  - d) We should seize the opportunity and better position ourselves

**Hu Jinxing**

11  
Perspective

President, Morelove Foundation, China;  
Social Enterprises High-level Roundtable Guest

- Pay attention to the role of social enterprise in solving social problems: Making use of commercial operation to solve social problems
- The government is gradually withdrawing from Charity field, assuming the responsibility by the society, even can solve capital operation problems of the commonweal organization with strong technical force
- The way of Charity marketing merit careful consideration from solution of social problems, the Charity cannot be thoroughly capitalized
- Through the establishment of public school and social investment Morelove Foundation promote social enterprise development

**Wu Libo**

12  
Perspective

Executive Deputy Director, Center for Energy and Strategies, Fudan University;  
Energy Panel Guest

**New Epoch of Electricity Big Data: Opportunities for environmental and climate management**

- China needs a revolution in the power sector. Currently, electricity consumption accounted for 80% of China's energy consumption, and 80% of the entire power supply is coal power generation. So we consider the power structure is problematic. Our team together with other schools is now studying on the big data of power consumptions
- Use big data to promote power reform. Smart grid has developed so fast and we can get the real time power consumption of shanghai now. We want to promote innovation in the power sector by analyzing the big data, such as to improve the stability of power sector and well control operation; using the data to reduce energy waste of peaks and valleys; etc. we may can also help to change consumer habits
- This is the current situation and prospects of our research, we hope to promote the reform of the national electricity through this project, thereby contributing to the energy reform

**Robert J. Shiller**

13  
Perspective

Sterling Professor of Economics, Yale University, USA; 2013 Nobel Laureate in Economics;  
Asian Economic High-level Roundtable Guest

- Exploring Asia's growth bottleneck problem from the perspective of globalization. The three speakers discussed the problem only from the perspective in their own countries. However, with the accelerating process of globalization, our research should focus on the whole world instead of partial interests
- The economic development should be achieved by inclusion. China should not ignore the power in rural areas. By contrast, China should develop the countryside productive forces and put them into the social system
- Views on the shadow banking. Despite of harsh criticism, it is undeniable that the shadow banking shows the financial innovations



## Hugh White

14  
Perspective

*Professor, Australian National University,  
College of Asia and the Pacific;  
Politics Panel Guest*

### Power Transfer and Transition in Asia

- US strategies in Asia are based on its aim to maintain the leading role in Asia
- Firstly, America may drop out, and no longer play a leading role in Asia. Secondly, China will drop out and accept the current situation and allow US to play a leading role in Asia. Thirdly, China and US will reach a compromise. Fourthly, none of the countries compromise and thus trigger disputes
- China kept testing America's attitude in some areas, like: East China Sea problems and South China Sea problems. And China wonders whether America maintains its current situation
- America needs to reassure its allies, eases tensions between China and America, and plays a role in maintaining the peace in East Asia

## Caner Bakir

15  
Perspective

*Co-director, Centre for Globalization, Peace  
and Democratic Governance Associate;  
World Economics Panel Guest*

### Global Financial Crisis:

- Less competitive banking systems are less fragile. They also restrain excessive risk-taking
- What matters in financial soundness is not only the quantity but also the quality of capital
- Whether monetary policy should respond to asset prices and asset price bubbles (or 'lean against the wind') is determined by ideational structures enabling or constraining central bankers' will to act
- Financial system resilience (fragility) is more likely when structural, institutional, and agency-level enabling conditions reinforce and/or compensate for conservative (opportunistic) bank behavior

## Park Youngah

16  
Perspective

*Director, Korea Institute of Science  
Technology Evaluation and Planning;  
Society Panel Guest*

### Future Directions of Korea's HRST Policy: Lessons from History

- The history of Korean technology human resource policies is that the development of manufacturing brought economic prosperity, and the national policies supported the implementation of scientific and technological personnel related bills
- HRST Policy of the Park's Administration: the future will be technology oriented, five-pronged conducts talent lifelong education and trains international talent
- Korean government will continue to promote scientific and technological human resources policies in the future

## Michael Schroeder

17  
Perspective

*Head, the Research Department  
"International Finance and Financial  
Management", Centre for European  
Economic Research;  
Finance Panel Guest*

### The EU's economic development prospects in the next few years:

- European Union countries are facing many problems. Issues such as labor costs and exchange rate gradually come to the fore. Meanwhile, competitiveness of European Union countries has changed
- European Union countries have had a profound reform, but reform has sparked a lot of debates. Reform has achieved some success, but caused a lot of problems, such as youth unemployment
- In the short term, the growth trend is good, but the foundation is fragile in the long term. Structural problems still exist in some economies, and many problems have not been fundamentally resolved. We still need to do a lot of reforms in the future

**William Powderly**

18  
Perspective

*Director, the Institute of Public Health at Washington University, St. Louis; Health Panel Guest*

**Climate Change and Infectious Diseases – an impending storm?**

- Climate change will increase the risk of infectious diseases. United Nations Intergovernmental Panel on Climate Change (IPCC) 2014 Years Recent reports point out again that climate change is occurring and will gradually increase, climate change will cause an increase in global warming and the frequency and intensity of extreme weather events (floods) occurrence .Climate change will lead to the expansion area and time of occurrence of vector-borne diseases, such as dengue fever, hantavirus and schistosomiasis. This will increase the difficulty of infectious disease prevention and control work and decision-makers should arouse attention. Climate change may also lead to droughts and bring food and drinking water shortages. The results also show that vulnerable populations are more susceptible to the effects of climate change
- Public health is not only just strengthen self-understanding and the climate change health hazards, but also should strengthen public education, to promote community awareness and better understanding of the impact of climate change on human health and social development

**Yao Yu**

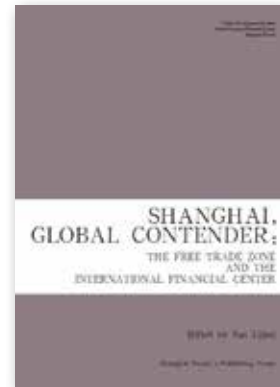
19  
Perspective

*Executive director, Behavioral Economics Laboratory, Chinese Academy of Social Sciences; Society Panel Guest*

**Who Moves to the City in China?**

- Presently, the most of new generation of migration has emigrated out of hometown before they were 20, 70% of which were willing to live in the cities
- When we were studying the migration of peasants to urban areas, it was important to focus on whether they were voluntary
- If there is an opportunity that the peasants can exchange their house or land in the rural areas for the house in the cities, the poorer of them are more interesting than the richer to accept this chance

**Publications**



*Shanghai, Global Contender: The Free Trade Zone and the International Financial Center*



*Asia's Wisdom: Explorations on Regional Integration and Economic Growth*



*Asia's Wisdom: Integration and Development of Multi-Civilization*

## Shanghai Forum (2014) Consensus

A new round of technological revolution and industrial change worldwide is coinciding with Asia's rise, a transformation of historic proportions. The combined influence of economic globalization, the spread of information technology, and the demands of international innovation give us a rare opportunity, and also raises serious challenges. This year, more than 700 professionals and practitioners from government, business, and academia gathered for an engaging discussion around the theme: "Asia Transforms: Identifying New Dynamics." Transformation is a decisive driving force for sustainable, healthy development in Asia. Only by seizing the initiative can we take the lead in realizing prosperity.

### *Technological innovation*

In order to coordinate robust, balanced growth, we must accelerate knowledge production and technological innovation. By consolidating the benefits of the new technological revolution and industrial development we can hasten the transformation of economic development models, adjust the structure of industry, and establish new social space for production energies. Technological breakthroughs can bring new vitality to our economies, spur social advancement, and raise the quality and efficacy of development.

### *Open to change*

Guided by changes in thinking based on practice, we can improve our conception and models for development. Emphasizing a more systematic, comprehensive, coordinated, approach requires a more organic combination of economic social, political cultural, and biological aspects. We will continue to encourage bold breakthroughs and ambitious experiments to continuously deepen reform and opening, going from the readily achievable to the more difficult, core issues. By improving production, making strategic adjustments to economic structure, and releasing the dividends of reform, we can uncover the true potential of Asia's transformation.

Good prospects for mutual gains and win-win opportunities will be formed through our continued efforts to explore new ways of thinking, common interests, and regional openness. Regional trade facilitation will be promoted through more substantial measure to opening and active promotion of the Northeast Asia FTA; establishment of the ASEAN Economic Community will advance regional economic integration and more broadly increase the competitiveness of Asia's transformation.

### *Peaceful cooperation*

Asian states should persevere in their efforts to learn from the past, look towards the future, treat neighbors as friends and partners, increase political trust, cast off prejudices, and shelve disputes. They should share responsibility, pursue mutual development, resolve disputes through dialogue, and manage conflicts through negotiation. Respect for each country's individual choices regarding development path and search socioeconomic development model is key, while the restraints of political and historical factors should be minimized. A peaceful environment for development and Asia's transformation can further be built through common efforts to address various threats and challenges.

All nations are in the same boat together, sharing the same concerns as well as the same goal of our peoples' well-

being. Focusing on commonalities, deepening cooperation, and developing cooperative exchanges between national governments, political parties, and civil society at all levels is imperative. The road to Asia's transformation lies in seeking common space for development and substantive cooperation in economics, politics, technology, education, and cultural areas to name a few. We will continue to explore pathways for communication, coexistence, cooperation, and mutual gains.

### *Environmental protection*

Asia's transformation depends on addressing the high levels of pollution, resource depletion, and emissions that threaten to derail our development. We must prioritize the environment and conservation efforts, guided by the principle "protect while developing and develop while protecting." This principle serves to consolidate and strengthen the foundation for Asia's sustainable, balanced economic development. In order to do so, we will utilize the most advanced technologies for developing sustainable energy sources. We will pursue strategies for economic development, resource conservation, reducing consumption, and environmental protection concomitantly. In addition, we will streamline the production-transportation-consumption process and explore renewables and resource reclamation to the fullest extent.

We must seek inclusive development, which means respecting the development rights of all countries' people as well as the responsibilities, opportunities, and benefits that come with it. All Asian countries must persevere in taking people as the basis, and peoples' well-being as the priority. Together, we should address food security, resource security, climate change, natural disasters and other issues. In this way, we may realize mutual gains and ensure that all people benefit from Asia's transformation.

The delegates of Shanghai Forum 2014 universally acknowledge that, faced with the layered complexities of international development, Asia remains the driving force of global economic growth and an important source of stability. The region should strengthen development, and at the same time, increase the breadth and depth of integration between the regional transformation and global benefits. Doing so requires breaking free from tradition, answering the call of the times, adhering to the correct path, and thoroughly promoting the transformation. By innovating and transcending the already rich experiences of a transformation with Asian characteristics, the region can bring prosperity not only to all Asian countries and people, but also promote sustainable development worldwide and once again reinvigorate the global economy.

## Application for Organizing Sub-forum Sessions of Shanghai Forum (2015) Begins

Shanghai Forum 2015—the decennial Shanghai Forum will be held from 23rd May to 25th May, 2015 in Shanghai.

As the first decennial for Shanghai Forum, Shanghai Forum 2015 is a milestone to bear particular significance and mark a new start of the future. After extensive admission, expertise meeting and media discussion, Shanghai Forum Academic Committee has determined the theme of Shanghai Forum 2015 as "**Economic Globalization and The Choice of Asia—Asia's Responsibility: Exploring New Approaches to Cooperation**".

Shanghai Forum 2015 consists of six sub-forums, which are **politics, economy, science & technology, society, security and ecology**. Each sub-form is composed of five sessions, and each session lasts around 90 minutes. Each session will be led by a Chair, who is in charge of all the coordination including guest invitation, agenda design, academic discussion, proposal presentation. The form of sessions can be academic salon, roundtable, dialogue, seminar, and so on.

### Sub-forum topics include:

**Politics:** Hot issues, trend tracking and exploration of the current international political situation especially in Asia; conflict and cooperation between China and neighboring countries; organization and cooperation of the BRICS countries, etc..

**Economy:** Challenges, opportunities and regional collaboration of the global and especially Asian economy; problem, analysis and outlook of China's economic innovation and development; financial reform, innovation and risk prevention; RMB internationalization; capital flows; BRICS economic cooperation, financial innovation, industrial complementarity and competition; development of free trade zones, etc..

**Science & Technology:** Scientific achievements and technological innovation with tremendous impact on society, economy and people's life; new changes in combination of technology and the traditional industries, such as Internet finance and Internet insurance; big data's impact on reform and innovation of politics, society, etc.; technologies and policies to cope with the environmental pollution and climate change, etc..

**Society:** Urbanization and its path; aging of population; mechanism of social welfare and security; public health; policy planning and implementation of megacities, etc..

**Security:** Data and information security; environmental energy security and international cooperation, legislation of relevant laws and regulations; food and drug security and standards, etc..

**Ecology:** Energy-saving and the development of new energy; climate change and policy making; environment protection, countermeasures and solutions to environmental pollutions; innovative development mode of ecological civilization, etc..



**Now application for sessions officially opens for all the institutions in and out of campus. The specific requirements are as follows:**

1. The topics of each session should be included within the above range, focusing on the general theme while discussing from a specific perspective;
2. The topics of each session should highlight the crucial issues of human development with cutting-edge academic views, and also call great attraction to the public and the media;
3. The applicant should be qualified with a rich academic and social resources and is able to invite guests with world-class research backgrounds or social influence; each session can invite 6 official guests in general (round-trip expenses and accommodation fee will be covered by Shanghai Forum in accordance with the standards);
4. We welcome applicant with a cross-disciplinary or cross-institutional background and encourage cooperation with well-known institutions in the world;
5. The applicant is required to submit a research paper or a policy report of 3000 words to the Shanghai Forum Academic Committee;
6. The applicant should organize a policy salon with the other four Chairs of the sub-forum before the official opening of the Forum;
7. The applicant who helps to invite keynote speakers at the opening or closing ceremony of the Forum is preferred.

**If you are interested in organizing sub-forum sessions of Shanghai Forum 2015, please download the form of "Application for Sub-forum Sessions of Shanghai Forum 2015" from the Shanghai Forum website and send it back to the email address after filling in it: [shanghaiforum@fudan.edu.cn](mailto:shanghaiforum@fudan.edu.cn) before 30th September, 2014.**

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