



THE ROAD OF ASIA

INTERVIEWS WITH
SHANGHAI FORUM 2014
GUESTS

TO THE 110th ANNIVERSARY OF FUDAN UNIVERSITY



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Fudan University
Korea Foundation for Advanced Studies

In Shanghai Forum 2014, we recruited about 30 of our top students to act as student journalists for honored guests at the Forum. Their specialist knowledge, commitment and self-assurance were all employed in taking down these words of wisdom. This book of records from the interviews is a crystallization of that gathering of words of wisdom and exchange of viewpoints with our distinguished guests.

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

Shanghai Forum 2014 - Name list of Student Journalists

Name	Major
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<i>Chen Yixue</i>	Journalism School
<i>Chen Yuting</i>	School of International Relations and Public Affairs
<i>Cheng Ruoqian</i>	Department of Chinese Language and Literature
<i>Cheng Tonghui</i>	Journalism School
<i>Duan Yige</i>	School of Economics
<i>Guan Henan</i>	Department of Environmental Science and Engineering
<i>Ik-soo Yoo</i>	School of Social Development and Public Policy
<i>Jin Yiming</i>	School of International Relations and Public Affairs
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Shanghai Forum 2014 - Name list of Student Journalists

Name	Major
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<i>Liu Shuwen</i>	College of Foreign Languages and Literatures
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<i>Pan Rui</i>	School of Economics
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<i>Sui Yixian</i>	School of International Relations and Public Affairs
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Robert J. Shiller: How to Distinguish Between Science and Non-science in Economics?

Editors: Johan Gade, Wei Xiaocen



Robert J. Shiller

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



Interviewer: **Zhang Jun**

Dean, School of Economics
Fudan University
Director, China Center for
Economic Studies

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.

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 is 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 are 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. 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.

Michael Grubb: Exploring New Dynamics for the Low-carbon Development

Editor: Yao Yi



Michael Grubb

Professor, International Energy and Climate Change Policy, Institute of Sustainable Resources, University College London (UCL);
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Interviewer: Wu Libo

Executive Director, Center for Energy and Strategies, Fudan University

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.

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 is 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, 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 capitalintensive 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 is 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 the third-generation units that are much more expensive than the operating units. Russia signs a contract with the Chinese central government, but on the business side. There are 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 of carbon with the EU carbon emissions trading scheme. It's a mixed success. It looks like it is working perfectly, although 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 emissions 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 will 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 is 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 have 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.

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

Editor: Chen Yuting



Graham Mather

Chairman, World Free Zone
Convention



Interviewer: **Yin Xiangshuo**

Professor, School of Economics,
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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.

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 rush 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 Pilot 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 needs 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 World 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.

Sha Zukang: Current Situation in the Asia Pacific and China's Asia-Pacific Policy

Editor: Liu Luxi



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

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.

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 nonpeaceful 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. 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.

Yves Mersch: Internationalization of RMB

Editor: Liang Danyi



Yves Mersch

Executive Board Member,
European Central Bank



Interviewer: **Xu Xian**

Director, China Insurance and Social
Security Research Center, Fudan
University

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.

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.

Pauline van der Meer Mohr: Confidence and Innovation Are the Foundation and Driving Force for Sustainable Development

Editor: Laura Natrop, Yao Yi



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

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.

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 precrisis, 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.

Barry Naughton: China Should Take Risks and Reform More

Reporter: Johan Gade



Barry Naughton

Barry Naughton is a professor of Chinese economics and Sokwanlok Chair of Chinese International Affairs at the Graduate School of International Relations and Pacific Studies at the University of California, San Diego. His research focuses on issues relating to industry, trade, finance, and China's transition to a market economy. Professor Naughton is the author of several widely acclaimed books about the Chinese economy including *Growing Out of the Plan: Chinese Economic Reform, 1978-1993* (1995), and *The Chinese Economy: Transitions and Growth* (2007).

The clear challenge now is not to lower the investment [in technology] – that part is fine. The challenge is rather to relax government control and let the investments flow to solutions that are more innovative, instead of just supporting new clients who churn out routine scientific research.

Reporter: Professor Naughton, you wrote a memento in 2004 to then Premier Wen Jiabao in *Foreign Policy* about how to handle overheating in the

economy. If you were to write a letter now to President Xi Jinping or Premier Li Keqiang about your main concern regarding the Chinese economy, what would it be about, and what would your suggestions be?

Barry Naughton: Let me start by going back to 2004. In retrospect, it turns out that [year] really was a turning point in the quality of Chinese macroeconomic policy-making. The quality started to deteriorate at that time. And of course I would like to say that is because Premier Wen Jiabao, unfortunately, did not follow my advice. But I think it is true, at least, that [2004] marked the beginning of a period of financial repression and unbalanced macroeconomic policy that still affects China today. So if I had to make a similar comment to the policy makers today, I would say that there are huge advantages that China can still reap by pushing forward the economic reform agenda. And it's there in the Third Plenum document, but it is still a bit underdeveloped. In particular, if the reform of state-owned enterprises can fulfill the potential to improve stock markets, then it can improve overall capital markets. We need those new reform-derived impulses for growth if China is going to smoothly transition into the new era. So I would say take risks and reform more.

Reporter: In your lecture at Shanghai Forum, you argued against using expansionary measures to get back to the high growth that we have seen in the past decades. But how low should the growth rate be allowed to fall?

Barry Naughton: I think in the short term, 4 or 5 % is completely acceptable. I do not think it is a problem for the Chinese growth rate to drop for a couple of years, if that is accompanied by systemic changes that give people some excitement and enthusiasm about the future. Of course, it is hard to get there. It is easy to say, but it is hard to get there.

Reporter: In past decades, there have been recurring cycles of overheating of the economy. As we are going into a period of more moderate growth, what is

the new challenge in dealing with the problem of overheating? Is it going to become more difficult for the government to handle?

Barry Naughton: I am not too worried about overheating right now. At the moment, the problem is how to carry out a financial restructuring without causing a negative impact on growth that is too dramatic. Once people realize they have to write off their bad assets, there is a tendency to dump things and panic. So I am more worried about that downside risk.

Reporter: In your book, *The Chinese Economy: Transitions and Growth*, you describe the technology policies in past decades and the attempts to create a more knowledge-based economy. Where is China right now in terms of such policies, and what does it need to do going forward? You previously talked about the existence of a high-tech bubble and argued that government investment was not the way forward. What is the government doing, and what do you think they should be doing?

Barry Naughton: In terms of technology policy, the situation is very different from when I wrote the book. The magnitude of the commitment to technology investment has just exploded since that time, so I would write that chapter very differently now. On the one hand, we can say China has done a very good job because they have really stepped up the input of resources both into human capital, as everyone knows – the university system has expanded very rapidly – and also into research and development. So the input side looks very impressive, and in that sense I agree with John Wong and others at the sub-forum who said that China has a unique opportunity to avoid the middle-income trap. On the other hand, because that increase of resources was so rapid, so big, and so top-down and government-directed, a lot of the money has been wasted. So the clear challenge now is not to lower the investment; that part is fine. The challenge is rather to relax government control and let the investments flow to solutions that are more innovative, instead of just supporting new clients who churn out routine scientific

research.

Reporter: Some scholars are talking a lot about the need to improve the social welfare system and the social security system, saying that it is the only way for China to shift to a more demand-driven economic model. Do you agree? What would be some of China's challenges in this process?

Barry Naughton: Yes, I agree. Ironically, one of the challenges is that Chinese economists are so worried about sustainability that even very market-oriented economists support high social security contribution rates. They are very cautious about government commitments to health care and retirement and other things – a little overcautious in terms of fiscal policy. They are too focused on making sure the government balance sheet is sustainable over a twenty to thirty year horizon. I think now is not the right time to worry about those sorts of issues. It is reasonable to not want to write too many checks given the rapid changes in the age composition. But, on the other hand, the income is growing rapidly, and China is not as poor as it used to be. It is a middle-income country, but it spends much less on health care than other middle-income countries. However, as I also briefly said in my talk this morning, it might make sense to hold some of those things in reserve, a little bit, in case they needed to be rolled out quickly.

Reporter: China is investing a lot in education. During your talk you also mentioned the issue of “managing expectations.” Now, as we see a lot of young people coming out with better education, there are certain expectations about jobs. Considering that there is most likely going to be a relative slowdown in the economy, how can the government meet those expectations by making sure there are interesting jobs available?

Barry Naughton: That is a great question but I think there is no simple answer. One interesting challenge is that for Chinese college graduates, there really is an expectations gap. They really think, ‘Okay, I made it to college, I am the first in my

family, and now I should have a good job ready for me.’ For better or for worse, students in the US and Europe do not feel that way. They understand that it still might be difficult to match themselves with a good job, but students in the US and Europe are sustained a little bit by the feeling that they are going to have many different careers in the course of their life, and if they do not get on the fast track right away, it is not too bad. It would be good if the government can help communicate to graduates that things are tough, but there are a lot of opportunities that individuals have to make for themselves. Chinese college education is not really good at teaching people this. However, the Chinese cultural tradition of innovation and entrepreneurship is superb, so that is a great thing to fall back on.

Reporter: Some people have argued that unless there is more space for entrepreneurship and smaller, innovative firms in the market, people are going to want to stick to the secure track of working in state-owned enterprises or in the government, and some people are really worried about that. Do you agree that this is a cause for worry?

Barry Naughton: Yes. In fact, we can see that. At Tsinghua, which I have visited fairly regularly, the proportion of graduates who go to the government and state-owned enterprise sectors is appalling. It’s like two thirds. And I think that is a real misuse of human capital because these people are really smart, and they are really creative. Of course, it is good to have smart people in high managerial positions, even in government, but I think they could contribute more if a larger proportion of them were in more innovative posts.

Reporter: The Shanghai Free-Trade Zone opened last fall. Some people have compared it to the opening of the Special Economic Zones, while others have been somewhat disappointed when the actual plan was laid out. What is your view of its significance for China and Shanghai?

Barry Naughton: Well, it is so much more complex, and I do not know enough to

really have a firm answer to that question. So much depends on implementation, and so far I would say the implementation has been a little bit slow, but I do not quite want to say disappointing. It makes sense to be careful when you are dealing with financial liberalization. So I guess I am still taking a wait-and-see attitude.

Reporter: This morning, you compared China's slowdown with the experiences of other East Asian economies. Generally speaking, how do you see China's overall social and political development compared to these economies? Can we expect a similar development in China?

Barry Naughton: All these other economies, when they reached this point of transition to middle-income, we see a really dramatic shift in the relationship between government, the economy, and society. We see governments step back and become more open to social influences, including through democratization. We see government policy having a lighter touch. So if we were to look at the experience of earlier countries, we would say that is a rule. It is a strong pattern. So far, we really do not see it in China. It is funny, because if you read the document from the Third Plenum carefully, that is sort of what it says. It says we should redefine the role of government and the interrelation between government and the economy. So I think that is right. But if we look for specific outcomes, and specific policy areas, for instance the technology that we were just talking about, we do not see it yet.

Chen Zhenguang: Shanghai needs to focus on its soft power to improve its global competitiveness

Reporter: Guan He'nan



Chen Zhenguang

Chen Zhenguang, who graduated from the Chinese University of Hong Kong and the London School of Economics, got his PhD degree from the University of Oxford in 1989. Now he is a member of the Royal City Planning Institute, senior member of the Royal Geographical Society, the Geographical Society of China, and the Academic Committee of Regional Planning of Chinese City Planning Institute, etc.

Now he also acts as the vice dean of the School of Architecture (Research) of the University of Hong Kong, the associate professor of the Department of City Planning and Design, and the doctoral tutor. He is engaged in teaching and researching of city and regional development and planning, and began to carry out investigations and studies in Chinese mainland in the beginning of 1980s.

The competitiveness of soft power is the test and challenge that must be faced in the track of China's development. It provides a platform to explore the competitiveness of a city from different perspectives.

Reporter: The British magazine The Economist published the report of the most competitive cities in the world in 2012 and Shanghai only ranked forty-third among them. According to your previously published essay Urban Governance and the Advantages of Shanghai's Global Competitiveness, what do you think is the main factor that restrains Shanghai's current development?

Chen Zhenguang: This research was mainly aimed at the problems that occurred in coastal cities in exploring the transformation of economic structure in around 2005, and took Shanghai as an example to provide a way of thinking to explain the situation. The development of Shanghai has a historical origin. Before 1918, Shanghai was a leader in the whole Asian region, and the Chicago of the Orient. The Bund now still preserves a lot of buildings of that time. In the later 1990s, the junction of the T-type development strategy proposed in the whole Yangtze River and the coastal area by China was in Shanghai. Shanghai has great geographic advantages, and Zhejiang province, Jiangsu province and the whole Yangtze River Basin combined make a great contribution to the development of Shanghai.

Our study compares the competitiveness of 15 cities around the globe under the perspective of global competitiveness when the economy develops to a certain level. Beyond the hard index of general economic development like GDP and the unemployment rate and so on, what we explore is the data of some soft power. The soft power was initially proposed by referring to the development experience of some western big cities. However, up to today, the competitiveness of soft power is the test and challenge that must be faced in the track of China's development. It provides a platform to explore the competitiveness of a city from different perspectives. The concept of the "exploration of soft power" is very simple, such as collecting the number of people and those who visit museums and art galleries in each city and so on. During the process of city development in the post-industrial days, the competitiveness of a city's soft power mainly lies in the development of innovative industries. For some international metropolises like New York and Paris, their core vitality derives from the innovation of a city.

We conducted researches of Shanghai Industrial Park to see how Shanghai promoted economic development through the development of the industrial parks of start-ups. The development of Shanghai Industrial Park mainly lies in how the government strives for the development of economic space, which has roughly experienced four phases, including the special economic zone, the industrial park, the high-tech park, and finally the industrial park. Throughout the whole 1980s and 1990s, Shanghai promoted the development of the Economic Development Zones and the High-tech Park like Lujiazui, Pudong and Zhang Jiang and so on, and elevated local economic development through the driving forces of the neighboring two provinces. But this kind of development did not break away from the traditional mode of economic development through investments. Only after 2000 did the local government slowly begin to promote economic development through creative industries. So I reserve my opinions towards the opening of Shanghai Free Trade Zone. Shanghai now has a certain economic scale, and the biggest problem of opening Free Trade Zone is that it does not break away from the development pattern of the past twenty years, and may not be able to get quick results.

Soft power also includes the issue of social justice. Hong Kong opened its port to mainland tourists to go to Hong Kong after 2003, which, on one hand, supported the economic development of Hong Kong, and promoted the nativism of Hong Kong over the past ten years on the other. For the supply of basic living necessities like milk powder, it also touches upon the issue of social justice. What we explore is how to put some of the soft power index such as the justice degree throughout the research process of a city as well as its development. It is difficult to analyze soft power through direct quantitative methods. It covers many details, such as the quality of life, the sanitary problem of drinking water, and whether people will get sick after drinking it. All of these are very hard to compare directly. However, such as the storm problem in Eastern Europe in the recent one or two months, it shows that it does much better in its infrastructure than its underground drainage. Even the heavy rain which happens only once in fifty years does not affect the residents' life

too much. But if this problem happens in some other places, it will bring a lot of inconvenience to the people. If there is no storm that happens only once in fifty years, the problem of soft power in the construction of city infrastructure may not emerge. But when it occurs, this problem appears to be comparatively important.

Reporter: As you have just mentioned, your research mainly focuses on the soft power in the innovation industries of a city. Could you talk about it specifically?

Chen Zhenguang: Seen from the perspective in which the innovation industrial parks and industries drive economy, the venture industries can better promote economic development in the context of a relatively loose control. For example, the innovation parks face all sorts of problems, including the regular payment of rent, fixed open hour and the need to open to visitors, and we need to find a balance point to solve the problems that the innovation parks face. The concept of innovation park is not fashionable. It has been raised, explored and carried out for many years in the West. China's venture parks should take China's road and make use of their own advantages to develop. Still, there are problems of control and they have different ideas in different stages. For example, the West proposed the idea of innovation industries in 2010, but now it still focuses on the development of real estate. Therefore, for the short, medium and long-term stages, we should study how to use different ways of control to promote the development of innovation industries. But as for the problem of Shanghai, its relationship with the neighboring sister cities is a sensitive issue. The compression of space geography after the high-speed rail opened to traffic also brought about problems that were never encountered in the development of Pudong in the past thirty years. The interactions among cities have changed a lot. The problem it brings about is that how large Shanghai's ability to bear is.

Reporter: Hong Kong's geographical location and its location as a financial city are similar to Shanghai. Are there any places where we can learn from the

city development of Hong Kong?

Chen Zhenguang: The situation of Chinese mainland is very different from that of Hong Kong and many developed countries, and it is difficult to learn from their experience in development. The major difference between Hong Kong and Shanghai is that Hong Kong has a boundary and can emphasize the two kinds of systems with surrounding areas. So Hong Kong is not as big as Shanghai, and doesn't have so much rural population burden as Shanghai. Shanghai is closely linked to its surrounding large cities. From the perspective of geographical location, the suburbs of Shanghai may be the core areas of Kunshan. From the perspective of population burden, it is similar to the social connectivity proposed by EU. Although the flow of population to Shanghai has promoted the economic development of Shanghai, it also brings about frictions with locals. As for how to straighten out the interaction with surrounding cities, the development of Hong Kong may not provide good experience. As for the experience in solving problems in city construction, like public traffic, Hong Kong may provide some but not necessarily very positive experience. Hong Kong began to build subways from 1970s when it had smaller population. The operation costs of underground transport were supported by the real estate development around the subway platforms, and the money earned from the real estate development above the platforms was used to solve problems like subway updates. This kind of operation model is very successful. There are very few subway systems around the world that don't lose money, and places like Hong Kong that can make money seldom exist. But the problem it brought about at the same time was that the development of Hong Kong was of high density. Compared horizontally with Beijing and Guangzhou in the same period, Hong Kong's housing situation was not that ideal. Hong Kong has a total area of 1100 square kilometers, and the developed land only accounts for less than 23% and the residential land less than 7%. The seven-million people center in a very small area, which makes the housing of Hong Kong more like a box. The city development of Hong Kong in the then situation was a way to promote economic development and transformation. We recognize Hong Kong's

case, but it is not necessarily a smart mode for development. Its experience in development is not necessarily suitable to be promoted in other big cities. The city of Hong Kong is more like a machine, which is geared up for economic development and has no other missions, while Shanghai is a part of a comparatively huge economic organization. Although in the same relatively dense situation, Shanghai is also different from cities like Singapore. Singapore doesn't have the experience of promoting its economic development through the real estate development. In a word, prudent analyses and researches are needed before Hong Kong's experience is referred to.

Reporter: Could you give some suggestions about the development of Shanghai's city competitiveness from the perspective of your study?

Chen Zhenguang: I think Shanghai can focus on how to merge the different opinions of the people together in a coordinative way to let all the people get involved in the decision of related policies. The development without the participation of people is a superficial one, and they do not have the feeling of ownership. For the medium and long term, if they can participate in and discuss the region's development deeply where they live, the people are more likely to support this kind of development.

Decoding the interactions: The Sino-US relations in their formation process

Reporter: Laura Natrop



Christopher K. Johnson

Christopher K. Johnson is a senior adviser and holds the Freeman Chair in China Studies at CSIS, an accomplished Asian affairs specialist. Mr. Johnson spent nearly two decades serving in the U.S. government's intelligence and foreign affairs communities. He has extensive experience analyzing and working in Asia on a diverse set of country-specific and transnational issues.

Typically the Washington administrations have to choose how they are going to manage the relationship with China in two ways. You either manage it from the outside in by working with allies and partners in the region to shape China's behavior and its approach, or you work from the inside out by emphasizing the US-China relationship and then managing things with the rest.

Reporter: Could you elaborate on the “new model of great power relations”? How is the new type of great power relations influenced by both countries’ silent pursuit of policies (counter) balancing each other’s influence and power? Exactly which implications does the “new type of great power relations” have

for the stability and balance in the wider Asian and Pacific region?

Christopher K. Johnson: Let's address the second question first, my own sense is that the whole reason why president Xi chose to come up with a new style of great power relations, is that he understands that fundamentally the track record of a rising power and an enduring power meeting on the world stage has not always ended particularly well, and certainly US leaders have also endorsed that part of the concept that indeed we do want to avoid conflict with Asia. To be frank, I think that the Chinese approach to the new style of great power relations has contradictions within itself since on the one hand you can clearly see elements of this desire to have a stabilizing effect to create something called "the relationship" that is somehow above all of the day to day tactical fighting. I think the best manifestation of that approach is president Xi's order to the Chinese military to improve military to military relations between the two sides. So that's obviously very encouraging and hopeful. I think though that we can see elements of the other side of it which is that what China seeks with this concept is to basically engineer US acquiescence to a series of sort of Chinese priorities. Wang Yi, the foreign minister, gave his press conference in March and he described the definition of the new style of great power relations. It was mutual respect for core interest, non-interference in the others affairs, I mean basically China's core interests, and it didn't list issues such as US interest in support for global rules and norms and these sort of things. So I think it's very much a concept in development at this point. I think it's a good concept and I think it is what we should be striving for. The question is, are people who have influence, in both systems, are taking it seriously enough to try and do something about it. As Mr. Da Wei mentioned in the sub-forum of China-US relations today, this is a leader to leader discussion on the working level while other people don't have the authority to be able to do it.

Reporter: This week the CICA (Conference on Interaction and Confidence Building Measures in Asia) was held in Shanghai, promoting a more comprehensive security cooperation within Asia. Why do you think China's

strategic direction shifted from a more low profile focused on economic development towards active engagement in Asia's security cooperation? Why in your opinion does Asia need a new security concept as proposed by Xi Jinping during the CICA?

Christopher K. Johnson: There's a number of reasons for that. Probably the main one is having to do with their assessment of the US rebalance strength to Asia, and the timing of the way the US side rolled it out, and what the Chinese were grappling with at that time meant that the Chinese kind of deferred a serious internal assessment of what it means. And they were trying to go through their leadership transition, former president Hu as the departing president certainly did not want to handcuff his successor and president Xi as the guy in waiting didn't want to overstep and be cautious. So what's been interesting to me is how quickly they have been able to manage this assessment. I think this kind of things, like the discussion at CICA, reflects their approach which is that the US rebalance basically is the chief obstacle to China's rise. I feel that this is a strong viewpoint here. The line in his speech about Asian security for Asians certainly reflects some of that idea. It would have been helpful if he could have made that statement, kept it in there, but also had something in the line of "we're of course acknowledging the US role". So I think part of the reason is this, the second part is that president Xi has been very clear in his public speeches, especially after the plenum last year, you cannot extricate the domestic from the foreign, the two are together. This is why in the national security commission they combine both, domestic security and external security. It leans a little more to the domestic security side but they're both present. So I think this is the fundamental point of view, there was certainly a sense of president Xi and others around it that the heavy domestic part with the plenum had been done and now they need to speak to the security issue. I think the most interesting is that with all these domestic issues that they're facing they are more than able to manage this kind of pretty robust foreign policy.

Reporter: China recently tried to promote the role of the ASEAN+6 and APEC in the region to weaken the influence of the US as a reaction to Japan joining the TPP talks. In China the accusation of the US trying to contain China through this TPP is frequently heard. To what extent do you think TPP is a way of containment or at least a counterbalance of China's growing influence?

Christopher K. Johnson: Not at all, I mean this is my view, and in fact as we are beginning to see from Chinese reactions to TPP 18 months ago, the exclusive line coming from China about TPP is exactly that the TPP has been designed to frustrate Chinese rise and contain China economically. Now you see much more not positive but much more neutral commentary coming from China's side. I think it is because much like the hope for a bilateral investment treaty between the US and China, there is an understanding that where the TPP will force the Chinese domestic economy to go in terms of meeting the standard to be able to join the TPP, is exactly where they need to go for their own domestic development. It's much like when China joined the WTO in the late 90's, where the former premier Zhu Rongji at that time used an external agency to do difficult things at home which were too hard in a domestic context. Therefore definitely the Chinese context of the TPP is improving. Certainly though as you pointed out, they understand very well that Japan is not doing this for economic reasons, Japan is doing it for geostrategic reasons. But again, that may accelerate the process by which they're willing to move to a standard which is better for the domestic economy. I think what's interesting in China's approach is how they begun to emphasize the FTAAP as a possible counterweight to the TPP. I think it's because they recognize in the same way as they're doing things in the security space, it's better to push back a little bit on the present Obama trip. I think likewise the failure between the US and Japan to come to an agreement on TPP has given the Chinese an opening and they're trying to exploit that.

Reporter: Recently, President Obama, Prime Minister Shinzo Abe and

President Park Geun-hye met in Hague during the Nuclear Security Summit as an effort to bring the US' closest allies in the Asia Pacific region closer together. How has this been received by China?

Christopher K. Johnson: I think China read The Hague trilateral in a couple of different ways. On one hand, it would be of concern because once again it's kind of emphasizing US alliances in the region as the approach which China argues as Cold War style of mentality. On the other hand, the mere fact that the US had to work very hard to get the South Koreans and Japanese to sit down together, should be of some reassurance to the Chinese, because what the Chinese fear the most is close supportive trilateral US-South Korea-Japan security cooperation. So that's certainly of concern.

Reporter: During Obama's recent visits to Asia not only did he reaffirm the efforts to bring South Korea and Japan closer together, he also assured Japan of his support to Japan's new direction towards collective self-defense. How do you think these efforts of the US are received by China and what are the implications for the region if Japan, next to being an economic power in the region will also becomes a military power? Especially considering its sensitive history, how will these intentions and the US' support be received?

Christopher K. Johnson: With regard to Abe's security agenda, China is very suspicious. They see it as the remilitarization of Japan. What's interesting is that, Chinese may be right in this, is that they do see through that Shinzo Abe is not an economics guy, but a defensive security guy. Therefore, he is pursuing the economic program because he knows that is what he needs to do to keep his job. However, at the same time he understands intuitively that his own goals are about collective self-defense and therefore rewriting the constitution. He has attention from the US because he has been doing things that we have been wanting Japan to do for 50 years, as for example he passed a secrecy law, established a national security council and so on. But of course these are all going to be areas of huge

concern for China.

Reporter: In that same visit, Obama also visited the Philippines where he signed an agreement allowing for more US troops in the Philippines. This all comes at a time where there has been tensions in the region concerning the territorial disputes of China with for example Japan, Philippines and Vietnam. Can the US act impartial even though the issues concern its allies in the region and US own interest? If it can't, what are the implications for its relations with China who is strongly opposed to international interference in its domestic or bilateral affairs?

Christopher K. Johnson: We talked a lot about this in the sub-forum we just had, and I think the main challenge for the US is “how do we reaffirm the relationship with our allies while also maintaining the strategic balance in the region?” I think typically the Washington administrations have to choose how they are going to manage the relationship with China in two ways. You either manage it from the outside in by working with allies and partners in the region to shape China's behavior and to shape its approach, or you work from the inside out by emphasizing the US-China relationship and then managing things with the rest. I think what's happened is that because of China's growth and its rise, it's getting harder for the administration to be able to choose one of those two paths. Because increasingly you have to do both at the same time which is very hard to do. So I think the challenge for the US is that if we're going to make a particular policy decision in a bilateral agreement, whether it'd be our relationship with the Philippines, Japan or China, we have to put a little more thought into thinking about how the other players in the region are going to deal with that decision. For example if vice president Biden comes to China and he endorses the new type of great power relation, this is of great concern to not only Japan but other regional parties. Mainly because they feel that now the US and China have cut a deal and the rest of them are left vulnerable. US' power has been on a straight line and it is difficult to be the big guy but sometimes that's just the way it is. And therefore you

have to keep listening, listen to what you say and watch what you do since they will interpret and draw their own conclusions unless you explain to them what you're saying and doing.

Reporter: How do you feel about the critique the West has on China about it not being a responsible stakeholder in the international order?

Christopher K. Johnson: I don't think it really is a fundamental problem. International observers understand that China has its own interest just like any other country has interests. And we have to understand that they are going to pursue their own interests. The notion of the G2 concept in which the US and China will follow a certain set of global rules and norms and basically co-run the world is an anathema to the Chinese. They don't want to sign on to that because their main fear is, by doing so, they take on a lot of responsibilities and waste their resources. So any honest assessment of Chinese reaction to these events would indicate that they're just doing what makes sense. We don't have to like it obviously but we should be modest in our expectations of what we think China is willing to do. This is a challenge that China faces not only in this neighborhood but for example in its policy towards Africa, where they get very frustrated because they're pouring a lot more money into Africa than Europe or the US are, yet in soft power wise, the US and Europe still have a lot more power there than they do. So when it comes to the whole concept of soft power or how to be a responsible country, they're still figuring this stuff out and it's not necessarily innate to Chinese culture. Chinese culture is somewhat transactional. "I give you something I get something in return" and embracing this idea of global public goods is something they're still learning about.

Dan Greenbaum: Keeping People's Attention to Environmental Protection

Reporter: Liu Luxi



Dan Greenbaum

President and CEO of Health Effects Institute

No country can solve its problem of air pollution in five years. China would probably do it more quickly than the United States or England, but it takes time not only to set the rules, but also to implement them, to enforce them, and to make sure that everybody is in compliance with the rules.

Reporter: You are in charge of HEI, which studies health effects of air pollution. With the development of medical treatment, does the effect of air pollution on health still matter that much today?

Dan Greenbaum: Very much so. What we are finding is that as people live longer, they develop many symptoms of heart disease. If they are exposed to air pollution, they could die several years earlier than they would otherwise due to the severity of the heart disease. The other issue is that although we have treatments for asthma, people with asthma have a very hard time on days when there's higher pollution. If somebody is particularly sensitive, even the best treatments will not prevent them

from having a serious asthma attack.

Reporter: What do you think of Chinese government's role in environmental protection so far? What more do you think China needs to do?

Dan Greenbaum: I think the Chinese government in the last five years has taken a number of important actions to move in the right direction. The establishment of standards for fine particles like PM2.5, the establishment of a monitoring system to measure [PM2.5] in many cities, and the process of making net data and information public are all very good first steps in better air quality management. The second thing the Chinese government has done is require big cities like Beijing, the Pearl River Delta, and the Yangtze River Delta to take very aggressive steps between now and even in the next five years to reduce the existing pollution. Thirdly, there is now a commitment to improve the quality of gasoline and the diesel fuel, and that will allow much cleaner vehicles to be sold in China.

And I think there are a couple of things that China can do. First of all, you should remember that no country has solved its air pollution problems in five years. China would probably do it faster than we did in the United States or than England did, but it still takes time to not just set the rules, but then to implement them, to enforce them, and to make sure everybody is in compliance with the rules. The second thing is that there is still more to be done. For example, the next generation's controls for coal fire power plants. The 11th 5-year plan and the 12th 5-year plan have made steps to control power plants, but there's more that can be done.

Reporter: What benefits could international cooperation in this field bring?

Dan Greenbaum: I think it's very important right now that there are already substantial amounts of cooperation. For example, the people at the US Environmental Protection Agency (US EPA) have a lot of experience in developing

monitoring systems. The “Air Now” system that is now in place in Shanghai was instituted jointly with the US EPA, which tells people every day how bad the air pollution is and whether they should stay indoors. And then, I think there are many government officials and private companies who have experience with technologies that are necessary to clean the air. There are many opportunities for Chinese companies to learn from them, do joint ventures with these companies, and eventually make their own new control technologies in China, which would be a good thing.

Reporter: Besides the technological companies, what can other enterprises do about it?

Dan Greenbaum: Well, I think one of the challenges is that usually when a government goes to make more rules to require improvements, many industries and companies will resist the rules. They would put political pressure on [the government] to say no, this would cost too much. But sometimes the companies see that it is actually to their advantage to implement cleaner technologies.

Reporter: What if there are conflicts of interests between companies and the government?

Dan Greenbaum: Well there are always conflicting interests. It’s always difficult to do this. The best example is— and this is not unique to China—the oil industry, whether they are government-owned oil companies like Sinopec, companies in Indonesia and Mexico, or the international oil companies. You really have to get them to agree to change their refining system and to make cleaner fuel. If you don’t do that, then you can’t do other improvements. And even in the United States, there was a very big battle for over twenty years to get change. The good news in China is that recently the Chinese oil companies have agreed to substantially improve the quality of their fuel by 2017, which is quite soon.

Reporter: The Paris Climate Conference will be held in 2015. What changes do you expect it will make?

Dan Greenbaum: I think the climate has been a difficult area because China and other rapidly developing countries have the reaction that the US hasn't taken substantial efforts, because we have not until recently taken any action. That's changing in United States now. We have tough standards in greenhouse gas emission from vehicles, and for the first time the US is preparing to take hard and enforceable actions for power plant emissions. So I think hopefully that will mean that countries like China and India and Indonesia and others will say okay, maybe we should think about taking actions, too. More in a sense of cooperation than competition.

Reporter: What do you think fosters the change in US?

Dan Greenbaum: In US, I think there are three things. The science has gotten stronger; the weather has gotten much more unclear, so people are more worried about climate change now than they were; and also right now there is political leadership in US that says that we must do something about the climate change.

Reporter: What roles do you think non-governmental organizations (NGOs) and social enterprises can play in the process of environmental protection?

Dan Greenbaum: I think they can play a very important role. They can be a continual reminder to the government decision makers that they need to take action. NGO activities in China are a little different from in other countries, but I know that some NGOs in China are not just educating; they are actually doing some very detailed analyses of the most cost-effective action that the government could take on air pollution, climate change, and other things. And then they are putting that analysis forward to the government agencies. Sometimes the outside groups and universities can do that kind of analysis in a way that government officials can't, as

[the officials] are more limited. So sometimes it's scientists in Fudan or Tsinghua or other places that are actually doing the analysis and make a difference.

Reporter: We also find it hard to arouse public awareness in environmental protection. What can we do to inform and educate people?

Dan Greenbaum: Well, I think one of things that happens now is that the available air quality report, for example, tells people right away that the air pollution is bad, and it helps spark people's concern. Frankly, some of the reasons that the government here has taken the actions over the last five years are because of the very high and very visible pollution. And there is civil concern, not organized by NGOs, but just because many people are very upset about this. But the challenge is that air pollution isn't bad every day, and I think keeping people's attention to it continually is the harder part. The second thing is that you get people aware if there are groups of people in China – for example, people with asthma, who suffer particularly badly in those days – to make sure their story is being told in the press and social media and other things. A child who can't go out and play but has to go to the hospital can get more concerns and have more impact than statistics sometimes.

Reporter: It's ironic that we pollute the air while we complain about the air pollution, and not everyone has asthma. So what can we do to make people realize that they have to do something for themselves?

Dan Greenbaum: Right. First of all, you know there's a possibility that sometimes people will have more diseases or illnesses because of the air pollution even if they don't have asthma. There can be any number of things. In some cases in the United States, people became aware of the problem with older diesel buses because they constantly had to clean their clothes, their windows, and everything else. And I think people initially think they have to do something because it is good for the economy and so that they have a job, but as people get more money, they would be

more willing to say, wait, isn't this a way to do this better?

Reporter: Do you think that a sustainable and eco-friendly way of economic development exists for China that can be explored in the near future?

Dan Greenbaum: I certainly think so, once you start sending clear signals that you want to do this. If the government takes specific actions and says okay, we want all the certain kinds of factories to be cleaner by a certain date, there becomes a sense in the industry to start investing in the most cost effective ways to meet that rule. And so you get new technology development, innovation, and new ideas. There was a point where people wanted to get cars to be cleaner, and there were catalytic converters in these cars; these control devices. But when you first started the car in the morning, the device didn't work so well. It hadn't warmed up. So they tried to see if somehow they could warm up the converters sooner. Many manufactures said we can't do that; we have to add electric heaters to the converter, and it's very complicated and expensive. And one company, Honda, said wait, if we design a converter and move it closer to the engine in the system, they will heat up faster; they will cost almost nothing more. Once they came out and said they could do that, many other manufactures were saying that oh, if they can do that, they are going to be saving money and we're going to lose business, so we better do that as well. So sometimes when the government sets up the clear rules, then the most effective and efficient way of controlling pollution will come from the private sector. Pollution is waste; it's things that are being thrown away. And efficiency is preventing waste and using these things for power, for products and other things. Smart companies will find ways to be more efficient in their whole operation instead of just putting control at the end of the pipe.

Duan Maosheng: The Design and Practice of China's Carbon Market

Reporter: Li Xiang



Duan Maosheng

Duan Maosheng, PhD, graduated from the Department of Mechanical Engineering of Tsinghua University, a bachelor in engineering. He also received a second bachelor's degree in economics from the School of Economics and Management. He acts as a researcher and doctoral tutor at the Institute of Nuclear and New Energy Technology, the deputy director of the Institute of Energy, Environment and Economy of Tsinghua University, and the committee member and chairman of the executive council of the Clean Development Mechanism of the Kyoto Protocol.

The establishment of China's carbon market in the initial stage cannot be perfect, but as long as the mechanism we designed is correct, it tends to be perfect one day.

Reporter: The carbon market is divided into compliance market and voluntary market. In the process of development over the past decade, has the share of the two changed? Which kind of market will become the focus of the development of China in the next decade?

Duan Maosheng: The compliance market has always been a relatively large

market and the voluntary market a relatively small one. For example, our current pilot carbon market belongs to a mandatory compliance market. The voluntary market has certain development prospects, but generally speaking its space is relatively small. If an enterprise lacks the pressure of compulsion, then its motivation to participate in the carbon market is derived entirely from its enthusiasm and awareness of energy saving and emission reduction but with limited constraining force. Therefore, the compliance market has always been a large part in the carbon trading market both in EU and China, and it will not change in the near future.

Reporter: You once served as the chairman of the CDM Executive Council (clean development mechanism between developed and developing countries). May I ask what kind of contributions has the CDM mechanism made to China in the past few years, and what kind of help it has provided in the establishment of China's carbon market?

Duan Maosheng: From the perspective of CDM, its contributions to China can be divided into two parts. Firstly, whether for the enterprises or government, CDM helps them increase a source of capital and income. For example, our country uses the income from the CDM enterprises to establish a CDM fund. According to the annual report issued by the website of the CDM Fund Management Center, by the end of 2013, the total amount of this fund has already exceeded 10 billion, and if the government can collect more than 10 billion capital from part of the projects of enterprises, one can know that the enterprises profit more from it.

But I think what is more important than this is the contribution it has made to the non-capital income. The enterprises' and personal awareness of climate change has increased these years. On one hand, this is ascribed to our publicity, and on the other, to CDM to a large extent. CDM can penetrate into every corner to attract others to pay attention to projects about climate change, which makes other people have the motivation to take the initiative to understand the problems of climate

change. Among them, enterprises' concern about climate change has increased greatly. Secondly, we engage in the pilot program, and the very tricky problem we encounter in it is that we do not have data which are added up by the enterprises themselves. It requires the establishment of a comparatively perfect statistical system within an enterprise. Before doing CDM, many enterprises have very poor internal management system, such as some of our energy-saving projects, steel mills, and cement plants and so on. But once after joining the CDM, these enterprises will be required to establish a perfect statistical system to check and calculate various indexes such as energy consumption and emission. Therefore, CDM helps them improve their internal management ability to a large extent which plays a crucial role in the pilot program we do. If there is no ability of adding to statistics like this, the pilot carbon market can not proceed aside from quality.

We now have many institutions to verify enterprises, and those institutions that once did DOE (the verification institution in CDM mechanism) played a big role. Many individuals who serve as verifiers in the CDM consulting company have used the experience accumulated in CDM and made a remarkable contribution to the construction of carbon market. In addition, many service agencies that did CDM at first had a lot of contact with enterprises, and promoted the optimization of their internal management system, which played a big role in the verification process. However, all of these are only the CDM's assistance aimed at the pilot areas. For the non-pilot areas, we will build a national market in the future which requires that each area should have relevant departments, and our CDM projects will be distributed more in the non-pilot areas. Therefore, whether in the pilot market or in the national market, CDM will play a very big role.

Reporter: Compared with carbon trading markets in America, EU, South Korea, and New Zealand and so on, what kind of special characteristics does China's carbon trading market have, and what experience can be drawn from precedents?

Duan Maosheng: First of all, I'd like to talk about what experience can be drawn. Firstly, the elements of a carbon market are basically the same. To establish a carbon market, we always have to set the total amount first, and then decide which enterprises and facilities will join in. Secondly, we should determine how to distribute indexes and whether it is free or mandatory. If it is free, what kind of methods should be adopted? Furthermore, we also should clarify how to sum up and verify its emissions, how to make the final assessment, and how to deal with the breach of contract if it happens, which also includes the establishment of a set of financial system to support the entire transaction system. Different carbon markets are all equipped with these basic elements, and the differences exist in specific problems, such as the upper limit for emissions. The upper limit for emissions in Europe is very clear, and European countries are the agreement makers for the first and the second commitment periods of the Kyoto Protocol. They have already had a set of indexes, and naturally an upper limit for emissions, through which they can distribute the upper limit of Kyoto Protocol directly to the ETS (the EU Carbon Emissions Trading System). However, China needs to make an upper limit for emissions first, which is a very painful process.

Secondly, it is the distribution of indexes. The methods used are almost the same, but whether it is reasonable or not, and whether the industrial circle can accept it or not depend on China's own situation. Because an enterprise is not just faced with the policies of climate change, but also with various policies like energy saving, the government needs to take into account whether enterprises can meet the requirements of different policies or not in the process of formulating policies. To put it simply, there should be no fight among policies. Like the electronic power department, the electricity price of surfing the internet by power plant is under the control of government, and that how much electricity is generated is set by the annual plan. It is unfeasible to set an upper limit with absolute amounts for emissions. If the government gives too many constraints to enterprises without feasible solutions, it will give rise to very serious problems. This is one of the special cases that China faces.

In addition, China's state-owned enterprises are very complicated. Many local governments actually do not have strong constraints towards state-owned enterprises, and the right to punishment rests in the central government, which is also the big problem encountered in the pilot program. Whether to build up the pilot market or the global market in the future, and how to strengthen the supervision of state-owned enterprises are the problem that we need to think about seriously and deal with.

So in the face of China's special circumstances, whether a policy that proves to be effective in the practice of other countries can be applied to China also needs further discussions.

Reporter: Whether the loss of China's carbon trading market system will make the cost of default very low and cause chaos in the market? How to solve it?

Duan Maosheng: Now China conducts seven pilot areas, and six of them have been started, among which only Beijing and Shenzhen have legal basis. The Standing Committees of National People's Congress in these two areas have made a decision that enterprises that default will be fined 3 to 5 times in breaking rules, which, speaking from the two places, has certain legal basis. If other five areas do not legislate in the level of National People's Congress, even if the local governments can fine them, they can't fine how much they want, which needs to be executed according to China's Administrative Permission Law. The law provides that the amount of fine should be examined and approved by the Standing Committees of local people's congresses, most of which is from 30,000 to 150,000. For enterprises, it has little effect on them. This is also a characteristic of China: how to do such a thing without legal basis. Therefore, China has many inventions, such as the department in charge of energy saving and ETS in many pilot areas is the same one--the National Development and Reform Commission. If you don't

obey the related decisions about ETS, you will not be allowed to apply for the preferential capital in energy saving. Namely you are restricted through other means. Therefore, we should take an appropriate measure according to the characteristics of China's enterprises without copying the experience of EU. However, this doesn't say that we are satisfied with the status quo that has no legal basis, but how we can do better under the existing circumstances.

Reporter: From the macroscopic perspective, the carbon trading markets in each country or region are relatively independent. Whether will they develop into a global market in the future? If possible, what efforts need to be done?

Duan Maosheng: This is a problem that has always been under discussion. During the first commitment period of Kyoto Protocol, only the ETS of EU is connected by CDM, the unified rule. It is basically an indirect unified global market, and now they tend more to do their own things. Because the most ideal situation is that the agreement about market mechanism reached under the Kyoto Protocol or Convention applies to all countries. However, since the 2007 Bali Island Conference, this agreement has not been reached so that they mind their own business. At the global level, the top-down measure has failed, and no agreement has been concluded in the United Nations yet. But in 2015, we will talk about an agreement about it after 2020 in Paris. If it succeeds, then the top-down approach revives. If it doesn't, we will consider how to combine the disperse markets together. However, this process is painful and long, and rules in each area are not the same so that it can't be finished in three or five years.

Reporter: What is the international evaluation of China's carbon market?

Duan Maosheng: From the international perspective, they all think this is a very significant progress, and we have received many positive evaluations. But at the same time, some people point out that the existing market has a lot of defects, and we need to do better in this aspect. The establishment of China's carbon market in

its early stage can not be perfect, and the EU's carbon market is still not perfect after 10 years' establishment. But as long as the mechanism we design is correct and has no major loophole, we can let it operate first and then perfect it through constant practices. One day, it will tend to be perfect.

Gavin Willis Jones: China Should Free Up All Restrictions on Fertility

Reporter: Liu Shuwen



Gavin Willis Jones

Gavin Willis Jones is the director of the JY Pillay Comparative Asia Research Centre and is a professor in the Department of Sociology at National University of Singapore. His recent research focuses on issues of ageing and urbanization and the determinants of marriage and fertility.

The fertility rate in China continues to be low, and the best choice is to free up all restrictions and monitor the future development.

Reporter: In the early 1990s you noticed an ongoing demographic transition in Asia that still continues today. How did you notice this transition? It's been two decades; do you mind giving an overview of the demographic transition that has taken place since then?

Gavin Willis Jones: If you traced the fertility in these countries at the time, the demographic transition was actually quite clear. But for some countries you don't have many sources of data. So for many countries you go on for a few years without any new data about what's happening. For instance, if you really want to trace what is happening to fertility rates, you have to have registration of birth. Now some countries have that, but many countries don't. So if you don't have good birth registration, the only way you can find what is happening to fertility is

when you have a big survey like the Demographic and Health Survey (DHS) or a census. These only happen every few years. Besides this, you don't really know what is going on. Demographers are always a bit behind in understanding what is going on.

The fertility rate in Asia has generally been falling, which is more or less a universal pattern (except in parts of Africa). For the past decade, China has had fertility well below replacement level - that is the level which is sufficient to replace the current population over the long term. But population is not yet declining because the age structure has not yet adjusted fully to the trends in fertility. So China's population has continued to increase slowly, but the young adult population has been declining for some time. The working-age population as a whole is expected to decline from about 2020, and the total population will begin to decline at about the same time.

Reporter: In your early works, you have mentioned that in many ways, China has been an exception when compared with other Asian countries. Do you mind to elaborating on that?

Gavin Willis Jones: One way in which China is an exception is that even though the average age of marriage has been going up in China, the difference between China and other Asian countries (Japan, Singapore, even Thailand and Myanmar) is very striking. If you look at women in their early thirties, in China there are almost no single women left. They are almost all married by the age of thirty. But in those other countries you can have 30% of [women] still single in their early thirties. So the difference is not that the age of marriage has not been going up in China, it has been going up; but it has been going up at ages within the twenties. China does not have very many early marriages because there is a minimum age of marriage in China, so almost all women marry during their twenties, and by their thirties almost all of them are married. In other East Asian countries, for many women age at marriage is pushed up way beyond thirty; even in their forties many

women are still single. Japan, Thailand, and countries like that now have as many as 10-15% of women who are still single in their forties, which is at the end of their reproductive period. That is very different from China. One reason for that seems to be that parents in China feel that if their daughter is not married by their thirties that is a big problem, whereas in other countries people have got used to the fact that a lot of women may still be single in their thirties; there are so many women around in that situation that it is not considered a big issue anymore. It is interesting to note that although the Confucian way of thinking might be expected to affect Chinese people everywhere, the Chinese who migrate to other Asian countries are not following the pattern of China. A lot of them are not marrying until very late, or not marrying at all. Hong Kong and Taiwan, too, have very delayed marriage. So I think it is something about being in China itself, since the marriage patterns of Chinese who live in other places seem to be modified. Of course, besides culture, this phenomenon also has to do with the economic situations: work opportunities, education etc.

Reporter: Due to the ongoing low fertility and drainage of labor market, last year China carried out a new policy which replaces one-child policy with a two-child policy; that is, if one partner is the only child in his/her family, the couple can have two children. What do you think of this policy change?

Gavin Willis Jones: The change of policy in China is a limited change. You can have two children if one of the partners is an only child; it is not that everybody can have two children. I suspect the modification is related to the government's realization that the low fertility rate will lead to some problems, for example the contraction of labor force. They are being very cautious though. Many people are worried that if you free up fertility, the birth rate will shoot up. However, I don't think that will happen. There is a lot of evidence that at least in the cities and in the wealthier parts of China, many people don't want two children any more. It is likely that in some of the rural areas if the rule is totally freed up, fertility will go up a bit. I think if China removes the policy all together, China would have a small

rise in fertility but not very much. That's my own opinion.

Reporter: It is proven by statistics that couples with higher education tend to have fewer children than couples in rural areas. Some scholars believe that by loosening the birth control policy, the gap between the number of children produced by elite couples and couples in rural areas will increase and therefore “shrink the talent pool”, putting the quality of the population into concern. What do you think about this?

Gavin Willis Jones: Well, if you are looking at the less educated and the rural having more children, then I think what is needed is to improve their conditions and improve their education, rather than restrict them from having children.

As for the shrinking of the talent pool, Singapore was worried about this issue. Lee Kuan Yew, the former prime minister of Singapore, said in 1983 that Singapore might be “doomed by a shrinking talent pool”. He was very worried that the highly educated were not getting married and having children. My own belief is that it is not only the children of the highly educated who have potential. The main thing is, whoever the children are, give them the opportunity to develop. The fact that more of them come from less educated parents won't necessarily restrict the growth of talent. The poor can have talented children as well, although it is true that the educated parents are likely to provide an environment where their children will do well. What we need to do is to provide the environment for all children to develop. So it is an issue, but I think it is discriminatory to restrict the less educated to having fewer children and encourage the educated to have more children. I think the main need is to improve the environment in which children are brought up.

The low fertility in China is indeed a problem; the policy should have been changed long ago. Free up the policy--let people have the number of children they want-- seems to me the best idea. I don't think the fertility is going to be too high. As to who has the children, well, let's wait and see. One of the roles of government

should be trying to equalize as much as possible the condition in which children are brought up irrespective of who their parents are. It may sound a bit idealistic I suppose, but that would be my view.

Reporter: In your work, you mentioned that Europe had population resurgence after a severe drop in marriage and fertility. Do you think China will face similar resurgence? What do you think is the key factor in the fertility rate here in China?

Gavin Willis Jones: It is possible to have resurgence, but for the moment there is evidence of only a modest resurgence in Europe. Part of the reason is a technical thing, the tempo effect; if you have been delaying marriage and then you stop, fertility in a given year will rise even if people end up having the same number of children. This is a matter of timing. This seems to be what is happening in Europe to some extent. But aside from that, if you are looking at the conditions under which people are having children, in those European countries where fertility is higher, a lot of women are in the workforce, but the provisions make it easier for them to combine work and family; and the husbands or partners too are tending to be more progressive about taking a role in raising children. In the East Asian countries, women who want to pursue a career and who get the education to do so have good opportunity in the workforce, but still have this problem of balancing their children and a career; they have to do most of the housework and child-raising because traditionally the role of husband has not been very much in that area. So this is a real dilemma for them. Also the work places tend to be rather family-unfriendly. So I think until those things change in East Asia, we are unlikely to see very much of a rise in fertility. Besides, though some countries have adopted policies to increase fertility, such as offering paternal and maternal leave – e.g. for Singapore it is currently 4 months of maternal leave and a week of paternal leave – it still doesn't go as far as, say in Scandinavian countries, where they have longer leaves, more childcare provision for working parents, and more flexible working places. East Asian countries are moving in the right way to boost fertility, but they

still have to go a bit further. In general, I am not very optimistic about raising fertility on a large scale in East Asia. The population size is sure to decrease, even experiencing a big drop in certain countries (Japan, Korea, Thailand, Taiwan etc).

However, the decline of population is not necessarily a disaster; there are ways to adapt to it. For example, the drop of population can be offset, at least to some extent, by migration, though these countries don't want migration. So I think migration is going to be an important factor, as I have discussed at length at the Forum. In China, we don't see as much migration from abroad, but there is a lot of movement of workers within the country and a new policy of giving a 100 million *Hukou* [to migrants] over the next few years, which is a lot more than has been given in the past. Intentionally raising the percent of rural-urban migrants who can become real citizens of the cities is a good policy. It is with limits, but you cannot push things too fast. After all, in China, it is the city where the real opportunity lies. Some may argue that large cities cannot take such an increase in population, but actually, even to maintain their population, the cities have to take migration from the countryside, because the birth rates are so low in the cities. For instance, if it was not receiving migrants, Shanghai's population would be dropping, just like Japan but faster. That's true for all big cities in China. Besides, people should be free to move around as they wish and as far as they wish. If they see an opportunity somewhere, they should be free to go and take advantage of that. I am not an expert on Chinese migration patterns, but it does seem that the *Hukou* system is discriminatory, so it is good to gradually get rid of it.

Reporter: If you were to give advice to China concerning its policy on demography, what would it be?

Gavin Willis Jones: With regard to fertility, I think China should remove restrictions, and monitor what happens. While there is not complete agreement on this, most Chinese demographers think fertility will not increase much if current restrictions are removed. Remember, the 2013 two-child policy is still restrictive. If

fertility increases a bit, that would actually be a good thing as the current fertility rate is too low.

On city growth policy, there is a danger that policies that expand the populations of large numbers of cities may find a drying up of the sources of rural-urban migrants to fuel this growth. China's population will soon begin to decline. Although 50% of the population still lives in rural areas, and many of these could move into cities, the past "unlimited supply of labor" is no longer the case. The number of young, working-age population is already declining. Wages are increasing, and labor is scarcer than before. In future, it may be unrealistic to expect that all cities can sustain rapid growth.

He Liping: The Government Should be More of a “Referee” Than a “Player”

Reporter: Pan Rui



He Liping

He Liping, professor in the Business School of Beijing Normal University, director of the Department of Finance, special research fellow of the National Economy Research Institute, China Society of Economic Reform, and special research fellow of the World Economy Research Center of Fudan University. He presides over the translation of Rostow's *The Take-Off into Self-Sustained Growth*, and his

work includes *Economic Growth: the 20th Century Progress Across the World*.

The government is both the provider of public service and the off-site supervisor. He should play the role of the 'referee' and monitor the field without going too far to be a 'player'.

Reporter: The real economy and the financial market are the two engines driving economic growth. In your opinion, how should the financial market avoid excessive bubble expansion and better play its social service function?

He Liping: Even without financial activity, where there is market transaction, there

could be bubble. The bubble could grow very large with financial credit. Whether there is bubble and how big the bubble is depend, to a large extent, on how the financial workers and the entire society see the risks, so it is related to how society sees it and not necessarily connected to the development of the financial sector. The 2007 big bubble of the stock market in China emerged because of the investors' lack of understanding of the risks.

Secondly, the growth of the small and micro enterprises (SMEs) is the trend now, so the financial services should vigorously support them and provide them with loans and payments. SMEs can be in partnership or incorporated. If they finance by listing and issuing bonds, the financial sector should support them. On the other hand, the financial institutions should not regard the SMEs as poverty reduction targets. The market-oriented principles should be taken into account.

In addition, the financial sector should also support the real economy and the research and development of financial instruments should be focused on the needs of the real economy. There may be new risks, but the financial institutions should not sit back and wait for the fruits. Instead, they should actively get involved in the competition and endeavor to solve the existing problems with innovation.

Reporter: Currently in China, the ever-growing influence of the Internet finance has exacerbated the potential financial risks. How do you think these risks should be managed and controlled?

He Liping: The financial trading tools and platforms using the Internet technology are new things and have the cluster effect in its early development stage. It has low entry cost, but the frauds cannot be excluded. This should be considered in a dialectical way. For one thing, it should not be banned completely. Members of society should improve their ability of identify the good from the bad. The supervision standards should be established and the gradual filtering function should be improved. For another, we should not take a laissez faire attitude.

Relatively intermediate measures should be adopted and the policies should not waver too much.

The bond market can be more standardized and transparent with the supervision of the government, credit rating agencies and investors. Furthermore, the default is actually a good thing. Some bonds that barely manage to not default are not conducive to the sound functioning of the entire market. The bonds in China should be differentiated in the market and there should be junk bonds. Equating is not a natural way and does not conform to the market law.

The “standards” to define risks should be modified where necessary, including the disclosure of information. The asymmetric information can be handled, and the establishing of individual and corporate credit base should be systemized and methodized for convenience. In terms of information management, as the government is both the provider of public service and the off-site supervisor. It should play the role of the “referee” and well monitor the four sides of the field without going too far to be a “player”. In terms of the financial institutions and financial companies, inside trade should be avoided and standardized and transparent mechanism should be established. For all social companies, they should build a sound corporate governance structure. A mutually balanced and constraining relationship should be built not only in the internal control of a company, but also in the management, decision making, authority institution, staff and objects of services levels of any social organization.

Reporter: The supervising of financial risks requires moderated intervention of the government. From the point of view of China’s transformation, how should the role of the government change to improve the financial market?

He Liping: China has to change the functions of its government. The active side in the unity of opposites between the government and it market is the former. Currently, there are both overdoing and absence for the government, and it is too

powerful in areas where there are interests. For example, there are many toll highways. Comparatively, community roads are poorly maintained.

China's industrial policies in the past several decades should be changed too. The government had spotted the promising strategic industries and intended to support them, but it is hard to predict the most promising industries and technologies in the next two decades or to precisely define the industries. It is difficult to see clearly the technology breakthrough, the relevant restraints or the cost and benefit. If the government has no professional talents in decision making, it will be as hard as it is for the public to make the right balanced decision, so the effective of industrial policies cannot be guaranteed always. As China is narrowing its gap with the developed countries, it has vaguer prediction of the future. A government with no insight results from the confusion of development.

So much for the industrial policies. So we need policies that can enable stronger competitiveness. We should establish an open market that fosters fair competition, encourage active innovation and foster the new industries by protecting the intellectual property rights. We should encourage the capable companies to do research and the universities to carry out sound basic education so that society can benefit from the fruits of high-tech and will be more willing to fund it, which will compensate the earlier R & D expenses.

The government does not need to do everything; instead; it should focus on the key points. As the market is developing, the government should adjust their way of thinking so that the economic policies can advance accordingly, otherwise it can be the obstacle hampering the development of the finance sector.

Reporter: Reform and opening-up are normally accompanied by conflicts. For instance, the “Shanghai-Hong Kong Stock Connect” opens up the Chinese financial market, but it also affects the stability of the financial evaluation PE level. In your opinion, how should we handle the relationship between the

reform and opening up of the financial market?

He Liping: Reform and opening should be in a mutually-reinforcing relationship. It will be hard to reform in a closed state. Meanwhile, it does not work if you only open up and do not reform. From the implementation of China's reform and opening up policy up to now, some structural and institutional factors are not well-adjusted, partly because of the not in place reform and partly because of the inadequate opening-up.

“Shanghai-Hong Kong Stock Connect” is the first step toward the opening up of the security market. It is local but it deserves to be promoted. The Shanghai today will not be able to build an international financial trade center without opening up. The international economy is in a competitive environment, so you can only achieve success if you've done better than others. As the world economy is constantly progressing, you have to have the awareness of competition. The current opening up to Hong Kong is both an encouragement of competition to the mainland and a promoter of reform.

Reporter: As China's GDP growth rate drops to 7%, there is pessimistic expectation in the market? What's the core competitiveness for an optimistic development of the financial market?

He Liping: The slowing down of China's economic growth results from both the cyclical and structural factors. In terms of the cyclical one, as the Chinese economy has experienced rapid grow in the past few years, it will surely be followed by a turning point and a low ebb according to the inexorable law of the market economy. Any possible speeding up in the future does not mean sustainable growth. From the perspectives of the structure, the reform in the economic system and other fields are not put into place, including the financial sector, trade and social services. The unsettled problems have prevented the economy from releasing its vitality. Therefore, in-depth reform is needed for the boosting of the Chinese economy.

The vitality and core competitiveness of China's future economy lie in many aspects. Firstly, compared with the developed countries, China has the advantage of relatively lower labor cost. Secondly, China has a relative large market scale and "China probably has the largest number of middle class in the world", so it means the market is in the trend of continuing expansion. Lastly, China is developing its education, science and technology as well as the culture, and its innovation ability are enhancing constantly in multiple areas. Although we are still learning and trying to catch up the with advanced nations, our strength in this will be highlighted as long as we focus on finding what we can learn from and keeping doing it. This is our direction of development and the only path to the future sustainable growth of our economy.

Hugh White: Concert of Asia-A New Prospect for the West Pacific

Reporter: Wang Yanqi



Hugh White

Hugh White is Professor of Strategic Studies and Head of the Strategic and Defense Studies Centre at the Australian National University. He was previously the Deputy Secretary for Strategy and Intelligence in the Department of Defense and also the first Director of the Australian Strategic Policy Institute (ASPI). His work focuses primarily on Australian strategic and defense policy, Asia-Pacific security issues, and global strategic affairs.

The ultimate goal of the Concert is to prevent any one country from dominating the system while at the same time to avoid escalating rivalry between major powers.

Reporter: In *The China Choice*, you make the point that China and America should treat each other as equal partner rather than strategic rival, although it is a hard choice for the both. So why it's so hard for the two major powers to change their perspectives?

Hugh White: There are two main reasons why it's so difficult for them to treat one another as equal partner. The first is that it requires them to step back from what they want to do. It's a very deep question about identity for both countries.

Americans as a community are very deeply committed to the idea that America is the leading power. They have not yet begun to acknowledge that America's role in the future is going to be different from its role in the past. So the idea that treating any country as equal is very difficult for America. Likewise, China has a very deep sense of itself as a great power in its own system. China's image of itself is very deeply shaped by its extraordinary long history as a centrally powerful state. It is very natural for China to aspire to be the leading power in Asia. And I think in a sense that aspiration is amplified by the sense in China of the centuries of humiliation since the Opium Wars and European and American penetration into Asia. So both for America and for China, to reach an accommodation in which they accept the other as an equal partner in Asia is going to require them to step back from very deeply seated ambitions and aspirations in sense of their own identity, which is very difficult.

The second point is that both of them believe they don't have to make compromises. America tends to believe that China will in the end accept American primacy as a foundation of the Asian order. China believes that America will be willing to step back from Asia and leave China to reach the primary power in the end. And if they both believe the other is willing to step back, they don't believe they need to make compromises. So only if they both understand that the other is very strong and very determined will they recognize the alternative, the compromise is necessary to avoid escalating rivalry.

Reporter: Political leaders in the U.S. often call China as a “responsible stakeholder”. So what is the difference between a “responsible stakeholder” and an “equal partner”?

Hugh White: That is America's idea that China is a responsible stakeholder. It's not an idea of China as an equal partner. It's an idea of a China who is willing to conform to U.S. ideas about the international system. A responsible stakeholder is someone who supports the order that's determined by the United States rather than

challenges the U.S.-led order. So I think that phrase has never provided a robust foundation for future U.S.-China relationship.

Reporter: China and America have already worked together to build some institutions and mechanisms to avoid miscalculation and unintended conflicts between the two countries, such as the hotline mechanism. What influence can this kind of mechanisms have on the relations between the two countries?

Hugh White: I think those mechanisms are very helpful as far as I go, but I don't think the evidence so far suggests that they are really helping to address the fundamental problem. The fundamental problem is that the U.S. and China have different, mutually incompatible views of the nature of their relationship. And things like hotlines mechanisms and strategic economic dialogues provide a good mechanism for managing day-to-day questions. But they don't provide mechanism for resolving those deeper issues about the nature of the future relationship. And in some ways, they encourage a kind of complacency. Many my American friends, for example, say they think the relationship with China can be managed easily because they got all these dialogues. But I don't think these dialogues grasp the really significant issues.

Reporter: So what measures can China and America take to help them treat each other as partner gradually?

Hugh White: Well, I think the political leadership is the most essential mechanism for changing people's view of themselves. It might happen that countries do go through changes of identity. For example, you can think of Deng Xiaoping's role in changing China's understanding of itself and in moving China away from a self-image defined by the old communist economic order and resistance of the market, an image which was very important in China's self-identity in the post-1949 period. Deng Xiaoping led China out of that. Likewise, in the U.S. case, for example, Franklin Roosevelt led America out of its isolationism into an active

engagement in the world. And I think, in both cases, that was really partly by necessity, but also that necessity was brought home to American voters, brought home to Chinese people by the political leaders clearly demonstrating why was essential that they should happen.

Reporter: The Trans-Pacific Partnership (TPP) is seen to be the economic dimension of the “Asia Rebalancing” strategy. Some people think that America just wants to share the dividends of the regional integration in Asia-Pacific. Others hold the view that it’s containment. What’s your opinion about the debate?

Hugh White: Different people in Washington see the TPP in different ways. Some trade people in Washington see the TPP very much as a trade and economic initiative. I think the central place the TPP is been given in the US Asian diplomacy over the last few years since about 2011 also reflects a view that TPP can function as a way of reducing China’s influence over its Asian neighbors. Some people in the other side have the idea that TPP will allow the United States to reshape the Asian economic order, to put America again at the central of that order and to marginalize China’s influence. If I was China, I wouldn’t be very worried about that because I don’t think it will work. It’s always an illusion. But I think at least some people in the US have that aim.

Reporter: What can China do about the TPP in your opinion? Try hard to join or not?

Hugh White: I think China should join if it suits China. In the end, this deal is never good or bad itself. Whether it’s good or not depends on whether it actually works for China on the economic side. If China can negotiate a satisfactory basis to join it, you have no reasons not to. But I don’t think TPP is always going to happen. I don’t think it will prevail in the U.S. Senate. You know that Obama has not yet had an agreement by the Senate to negotiate the deal. And I think it will be

extraordinary hard to get it. It will likely to be one of those ideas that just die away. But if it doesn't die away I don't think it will work.

Reporter: We know that economic interdependence may alter the calculation of costs and benefits when a country is going to take some measures and may promote peace and stability potentially. Do you think the integration of economics in the Asia-Pacific which deepen the interdependence is promoting peace and stability of the region? To what extent does it alleviate the political tensions in the Asia-Pacific?

Hugh White: The economic interdependence of the countries in the Asia-Pacific is very important for their future relationship and gives a good ground for optimism that the U.S. and China can build a stable relationship. But it doesn't guarantee it. And in some ways, I think, the interdependence almost works to increase the risk of rivalry because it increases the sense on both sides that they don't have to compromise because the other side will. I don't think the interdependence in anyway makes strategic rivalry impossible. It provides a good incentive to avoid it. But it only provides incentive to avoid it if the both sides recognize the impact on themselves as well as on the other side. I think at the moment that has not really happened.

Reporter: What can American and China do to help the cooperation in economic realm spill over into the political realm?

Hugh White: They have to talk about the question about identity. American political leader should stand up and talk to the people about the way in which China's rise changes the balance of power, changes the distribution of power and present them with a country that is different to any country that has ever been dealt with before. And I think Chinese political leader have to explain to Chinese people that it's not worth their while to try to push America out of Asia, they should be willing to accept America to continue to play a strong role in Asia. I think for both

sides that will be very tough political talent, leadership talent.

Reporter: There are some potential hotspots in the region which demand the two powers' attention. North Korea seems to be preparing for their fourth nuclear test. What role does North Korea play in Sino-U.S. relations?

Hugh White: I don't think North Korea situation is as serious as the situation in the South China Sea or the East China Sea. North Korea is not really an issue that divides the US and China. American sometimes complains that China doesn't do its best, but that's not an issue big enough and important enough that pushes US and China towards conflicts. But the issue in the East China Sea between Japan and China is terribly serious for the United States because if there is a clashing in the East China Sea between China and Japan, the Japanese would ask the United States for military support. And if the United States didn't provide the military support, it would very seriously damage the U.S.-Japan relationship. And that would also very seriously damage America's position in the Asia-Pacific. So I think that's a much more dangerous situation. The situations really need to be worried about since they could easily draw the U.S. and China into directly conflicts.

Reporter: As we can see there are lots of tensions in the South China Sea and East China Sea. Are China and America testing each other's determination?

Hugh White: That's exactly right. Will America stand by its allies? China is testing it and saying "OK, are you really prepared to stand by your allies?" And America walks back and then moves forward again. Sometimes it talks very strongly as president Obama did in Tokyo, talks very strongly about supporting Japan militarily. But other times it is very cautious about that. So I think the U.S. has a mixed message on that. China is continuing to test that. And America, I think, keeps on thinking that as long as America makes clear enough statements, China would back off. That is going to be a risk. America think China will back off, China thinks America will back off.

Reporter: To avoid this kind of escalating rivalry between major powers, you advance the new concept “Concert of Asia”, so what are the main differences between Concert of Asia and other institutions already in the region?

Hugh White: A concert model is based on a very clear understanding between the great powers in the system that they will treat one another as equal. And they will not infringe others’ core interests. And they will, in doing that, also respect some core principles of international order like non-aggression and that sort of things. So I think it’s a very demanding thing to do. It’s very hard to set up a concert particularly because a concert in Asia will have to include not just the U.S. and China, but also Japan and India. It’s a very difficult but it’s possible and it will be, I think, the most peaceful outcome.

The ultimate goal of the Concert is to prevent any one country from dominating the system while at the same time avoiding escalating rivalry between them. You can avoid any one come to dominate the system with a balance of power structure. But the balance of power structure uses strategic rivalry to prevent primacy. Trouble of using strategic rivalry to prevent any one country achieving primacy is that it carries such a strong risk of conflicts and wars. And a concert is a way of avoiding primacy while at the same time minimizing the risks of conflicts.

Reporter: We know that Russia is also a very powerful country. Why Russia will not be in the Concert of Asia?

Hugh White: Because I think Russia’s principle preoccupations are in Europe. It’s not to say that Russia is not an important country. Look at Russia’s neighbors in Asia. China is a big one, a very big, very powerful country. Look at Russia’s neighbors in Europe, like Ukraine, the Baltic States and Belarus. I think Russia’s strategic identity and its strategic opportunities are very pushed towards focusing on Europe rather than on Asia. I don’t think in the end Russia is going to be big

enough and important enough to really deserve a place at table. Any deal, any kind of arrangement, which the US, China, Japan, India all agree on, Russia will have no choice but to go along with. So I don't think it's really quite a great power in Asia. It's not to say it's irrelevant. It's obviously an important country.

Reporter: There are also many small powers in the region. How do the U.S., China, Japan and India deal with the problems that are related to them?

Hugh White: If the U.S., China, Japan and India all agree on an Asian order, then the rest of the countries including countries like Australia will have no choice but to accept what they agree on. So we just have to hope they agree on something that will work for us. And that's a risk for we smaller little powers. But the alternative is to live in a region in which the great powers don't get on, don't agree, and in which they are likely to be at war with one another. So any smaller little power has to ask whether they rather live in a region in which the great powers are agreeing with one another and colluding with one another, in ways that may be against smaller little power's interests, or they rather live in a region in which great powers aren't agreeing with each one another, in which they competing with even fighting with each other. And I think, particularly in the era of nuclear weapons, the prospect of conflicts between great powers is worse than the consequences of cooperation between them.

James Markusen: Shanghai Free Trade Zone is not a Good Name

Reporter : Chen Yixue, XieFufan, Chen Ruoqian



James Markusen

James Markusen, professor of economics at the University of Colorado Boulder. His principal research interests are in the field of international trade. In the last 25 years, he has focused on the location, production, and welfare effects of large-scale firms and multinational corporations. Many years of his work on researching multinational firms culminated in a book on the role of multinational firms in the international economy, which was published by the MIT press in the summer of 2002. More recently, Professor Markusen worked on a diverse set of issues including export-platform foreign direct investment, fragmentation and trade at the extensive margin, and selection and learning effects in multinational firms explaining their higher wages. His most recent work focuses on non-homothetic preferences and explores the role of income elasticity in explaining empirical and policy puzzles.

"The true meaning of the free enterprise system is that nobody is in control. The government and their international cooperation can establish a framework of rules, under which they work with other countries."

Reporter: The differences between two countries, such as the gap between their per-capital income levels, can affect their cooperation on various aspects, including tariff negotiation and so on. Will this be a push toward cooperation for developing countries? How can countries at different levels of economic development cooperate with each other in a better way?

James Markusen: First, we have to keep in mind that cooperation among developing countries is difficult, as they often present themselves as rivals. In higher developed countries, such as those in North America and Europe, cooperation is difficult as well. Even though there are some mutual gains, issues such as environment and intellectual property remain difficult. As for poor countries, the paper I was writing uses environmental issue as an example. The issue just goes way down on the list of priorities, which results in little progress in this area. China still relies heavily on coal fire, which is a carbon-intensive energy. We talk about global warming all the time, but we are still not at the stage when countries are willing to make sacrifices.

As for intellectual property, the costing is huge. From drugs to software, the initial costs are all huge. Developing countries only want to pay marginal costs, however it usually takes about one billion US dollars to develop something new.

Security problems are also major fields of controversy. But once countries are willing to invest money and new intellectual property is developed, countries will be respected and gain in return.

As development proceeds, skills improve, which leads to the rise in wages. This often portrays a “bad” image, but it reveals the fact that basic products are unprofitable, which leads to the movement of simplest goods to other countries. This is a natural process that the US and Europe went through as well. For example, Korea, Singapore and Hong Kong used to be manufacturers, but now have moved up to white-collar stages. As countries climb up the ladder, it is a normal process

that incomes rise, simple goods move down the ladder of countries. The ascending countries transform to service industries and demand basic products from countries at lower stages.

Reporter: As for other developing areas in Asia, what will their future prospective be? Will they just repeat the industrial upgrading process from manufacturing to service industries, or can these Asian countries find a new way to develop?

James Markusen: Actually this transformation process is happening on its own. Private incentives focus on accumulating expertise so as to move on to higher technical levels, thus they don't have to be managed by the government.

Let's talk a little about the Shanghai Free Trade Zone. Many friends and I think it is a terrible name. A free trade zone refers to a special place for manufacturing, which allows importing things without having to pay duty fees and then exporting them. Computer parts and machinery are popular in free trade zones. But that is not what Shanghai's Free Trade Zone means. It is more about enterprising. It is primarily about services such as banking and finance. So the two free trade zones mean differently. The Shanghai Free Trade Zone will help Chinese businesses move to new levels of international sophistication. They will rely less on multinational enterprises, be less constrained by the central government, and take on sophisticated forms of business. It is a good thing.

Reporter: There are also other forms of regional economy in China, such as those in Guangzhou, Shenzhen and so on. How do you think these forms could contribute to economic development in China?

James Markusen: Most of these forms are still manufacturing ones, and do not involve much expertise. Many factories in Guangzhou and Shenzhen are currently managing orders from Hong Kong and Singapore. This is not what the Shanghai

Free Trade Zone offers, but still as I said, that's nothing bad. The Shanghai Free Trade Zone will attract the white collar jobs away from Hong Kong, Tokyo and Singapore. Overall China is still majorly in charge of manufacturing and much marketing is done offshore. The Shanghai Free Trade Zone can strengthen Chinese businesses in white collar activities, and marketing can be done from here, in Shanghai.

Reporter: These days, industrial transfer also happens within Asia. Countries such as Vietnam and India are winning more orders and becoming new world factories, taking the place of China. Will this be a chance for Chinese factories to upgrade? Will those big enterprises having much capital become the winners?

James Markusen: There is a trend that manufacturing is going back to the US and Europe. The time, intellectual property issues, competition among countries, rising wages in Asia are all reasons. They are willing to pay three times of the wages but not five times. In the US, manufacturing wages rise, but services are very routine, and can be replaced by machine and internet. The US is undergoing a loss of white collar jobs and good quality jobs for the young, because technical changes lead to requirements of small numbers of skilled people. The unemployment rate in Europe is even higher.

Reporter: In your paper you mentioned different integration of knowledge capital and physical capital will influence the way that firms choose to invest abroad, like FDI and OS. What do you think of Asian firms' way of investment?

James Markusen: This is a natural process of change as Asia accumulates skills in engineering. Knowledge is very expensive to develop, but once it is developed, it can be highly reusable throughout the years. As expertise levels rise, simpler goods are moved out of China. The exportation of knowledge and infrastructure is notable,

such as Chinese trains. I was on a fast train from Nanking to Shanghai, and it was great. China is now demanding protection of intellectual property. "Free Trade Zones" help Chinese businesses go abroad. This is the physical part, but headquarters are just as important as factories. These two strengths can help Chinese firms expand and bring more jobs.

Reporter: The three giant internet companies in China, Baidu, Ali, and Tencent, are expanding their empires by merger or acquisition of many other companies. So, will the future business world be composed by shares of these big companies with several small companies squeezing in?

James Markusen: There is a term called network products, to which internet and software both belong. How much do you value these things depends on how many people are using them. That is the natural tendency in any network service to large firms. Take the trend from Nokia and Blackberry, which were at the peak 5 or 6 years ago, to iPhone now as an example. The development of applications, or Apps reared this transformation. These independent but special products were sold not only to individuals but also to the bigger firms. What determines the change from one network to another is the range that the service covers. So network effect leads to winners and losers.

Reporter: There are voices saying that the impact of the Asian power on the worldwide economy has been exaggerated. What do you think of these sayings?

James Markusen: I don't really like the saying of "power". Politicians exaggerate the importance of Chinese export. Actually as for electronic products, the Chinese content is quite low. For example, in an iPhone, the Chinese content is very small, about 5 percent. The physical parts are about 15 percent, which are commonly taken by Japan and Korea. The services, software designs and marketing networks are majorly managed by the US, so the US content in an iPhone is about 30 to 35

percent. So even though Chinese growth rates are huge, the growth per se usually looks much greater than it actually is. It is exaggerated. During the last 20 years, huge domestic changes have taken place in China. Household incomes have risen, but total consumption has been suppressed. As wages in China rise, Chinese production stays in China, and shares of exports drop. In *China Daily*, a yearly goal of 7.5 percent of economic growth was mentioned. However, I don't think this is a worthwhile goal in itself. Too much concern has been paid by governments on exports. There should be a new orientation to Chinese economic development. And better goods should be provided to Chinese people.

Reporter: After the reform and opening-up policy was released in 1970s, regional economy has been an important approach toward economic transition in China. The establishment of Shanghai Free Trade Zone last year is one of China's most recent actions. What opportunities can this approach bring to domestic and multinational firms?

James Markusen: I have said about the good things of the "Shanghai Free Trade Zone" above, but there are also bad things. It might give the central government less control over stable macro environment. Trade-off is what economics is all about. The true meaning of the free enterprise system is that nobody is in control. The government and their international cooperation can establish a framework of rules, under which they work with other countries.

Li Wei: The next five years is key to China's economic reform

Reporter: Jin Yiming



Li Wei

Li Wei serves as an economic analyst and research director of the Standard Chartered Bank in China.

The development of the next five years is crucial. Whether the reform can succeed or not is concerned with the sustainable development of China's economy five years later.

Reporter: Since 2009, China's economic growth has encountered a short-term bottleneck. What is your attitude towards "the end of China's high economic growth" raised at this year's Shanghai forum?

Li Wei: In these years, China's economy is in the middle stage of transformation, and it does face some problems that have to be solved in a short term. One is the real estate market, where exists the phenomenon of over high housing prices in some areas and the inhibition of residents' investments in consumption. The second one is the high leverage of China's liabilities after the financial crisis. During the short period from 2009 to 2014, the leverage ratio rose nearly 100%. In the process of the rapid growth in debt, the assessment measure of bank lending loosened, leading to a series of chain reaction, such as an increase in bad debts and a rapid

decline in investment profitability and so on. The above two points will be a burden on China's economy in the short term, and may lower the economic growth rate from the previous 10% to 7%, or even from 6.5% to 7%.

However, after this China still has room for convulsion. One is the balanced development of Midwest China. The Midwest China accounts for nearly 60% of China's population while its revenue accounts for less than one third of the East region. The other is the rate of urbanization. The non-agricultural population with household registration accounts for less than 35% of total population, but the average consumption of urban population is roughly three times that of rural population. To promote urbanization will further boost consumption. The third is the presence of excessive management in many industries and the vitality of the market that has not been fully tapped. Seen from the index of the "difficulty degree of trading" by the World Bank, China ranks 91st among 183 countries. To optimize government management mode can fully mobilize private capital, release larger market space and improve the status quo of the low production efficiency of enterprises and the short supply of capital.

If the reform succeeds in the future, it means that the 7-8% growth speed of China's economy can maintain for a longer time; if it fails, there are two situations: one is that there should be no problem to remain at the level of 7% in the short term with the current economic growth mode without any reform. The other is that China's economic management objectives tend to be more and more diversified, and pay more attention to the quality of GDP, including the growth of revenue and consumption, the improvement of environment, and the perfection of social security system and so on. Even in 2020 or earlier, China has become the world's largest economy. However, our GDP per capita may be only 22% of that of America and the living standard is still very low. Therefore, the pursuit of high growth in the future is not China's main purpose. Its pursuit is still the sustainable development.

The fundamental side of China's economy is relatively healthy. On one hand, it derives from its savings rate and investment rate, which creates larger room for China's economic growth in the future; on the other, China's foreign currency reserves provide a good guarantee for it to fight against the international financial impact. However, China's investment efficiency is in desperate need of improvement and the rapid decrease of investment return rate in these years is worthy of attention. The five years of future development is the critical five years. Whether the reform can succeed or not is concerned with the sustainable development of China's economy five years later.

Reporter: In February this year, a rare trade deficit happened in our export. You held an optimistic attitude, and thought that the export would not continue to decline this year. Statistics in April showed that there was a rebound in export. Is this in line with your expectation towards the trend of China's import and export trade?

Li Wei: In the future, China has the ability to become the new global trade superpower after the British Empire. It is equipped with corresponding conditions: on one hand, China's economic strength continues to grow rapidly, its import and export network tends to be wider, and it has some incomparable advantages which other countries do not have in manufacturing capacity, output and production capacity,. On the other, it has a lot of relatively cheap labor force and superior infrastructure. Seen from the global production mode of the future, these advantages can still be maintained for a rather long time.

Seen from the medium term, China's export prospect is still positive and optimistic. Even if the international trade protectionism arises, it will get better recently with the improved economic momentum, and the economic recovery of Europe and America may give a further boost to China's export. Seen from the short term, the export is now not the main engine to pull China's economic growth and it always produces negative effects instead. However, to maintain the current growth scale is

critical to stabilize China's employment market in the short term. These implicit values can't reflect directly in our GDP, but can't be ignored.

My basic opinion is that the speed of short-term growth mainly depends on external demands, and doesn't have too much correlation with the economic performance of China itself. If Europe and the US revive, they will definitely drive the recovery of other Asian emerging economies, and pull up the demands towards China's export. Speaking from the medium and long term, China can better integrate into the global economic system through the import and export trade, and the further opening of financial capital accounts. In fact, only by opening more can China's economy become more energetic and efficient, and achieve a long-term economic boom.

Reporter: In the process of economic reform, what role should the government should play? How do you evaluate the controversial “four-trillion” plan?

Li Wei: The government should be combined with the market, and neither can be dispensed with. Only in good combination can the economy develop in a healthy way. On one hand, the government should dominate the distribution of public resources; on the other, the government should become a service-oriented government to serve the market without directly participating in the competition and operation of market, especially the state-owned enterprises. Its emphases are: first, good services need to be provided. They include not only the services of social public security, but also the guarantee of laws and rules for fair competition among enterprises to promote the implementation of market rules. Second, the incremental reform needs to be done properly. Sometimes an all-round reform is difficult, but at least an incremental reform can be made to solve problems during this kind of constant reform. Third, consumers and investors need to be protected. Whatever the economies are, private, state-owned or foreign-funded, the government should protect the legal rights of all kinds of investors, and be a good referee for fair market rules.

As for the “four-trillion” plan, it does not have big problems itself. The problem lies in the overstretching of the stimulus intensity and duration and so on. In the second half of 2009, we actually could have stopped it properly, but we didn’t start to adjust the monetary and fiscal policies until 2011 when the inflation, asset bubbles and the real estate prices increased too fast. However, all of these were commented afterwards. When it was unveiled, I remember that people all said that it was good, and no one said “I reject it completely”, so we couldn’t blame it too much afterwards. Under the circumstances at that time, it was impractical to count on the private economy to pull China’s economy out of the financial crisis. After all the people’s confidence suffered a blow, no one would pull the rebound of investment at that time.

Through this, two lessons are learnt: first, we can be more reasonable in the flexibility of policies and the time of adjustment. Second, the stimulus method can be achieved both through reform and formal and sustainable financing means. Many basic investment facilities and local government financing brands can’t totally rely on bank loans as the financing channel. The government still needs fiscal policies or the policy of enterprise debts to support the medium and long-term investments of enterprises, and gives a reasonable planning of repaying the debts in the budget in the future. We need to make the future macroeconomic policies and management more rational, scientific and effective through this opportunity, which is a positive point of it.

Reporter: The new business mode is constantly promoting the marketization of interest rates. In this year’s NPC and CPPCC, the president of the Central Bank Zhou Xiaochuan said that “the deposit rate will be liberalized eventually, which can be realized in the recent one or two years”. How do you view this trend?

Li Wei: Seen from the frame design, there is no big problem in the marketization of interest rates in one or two years. In fact, even if the marketization of interest

rates is not fully liberalized, the interest margin of banks may have reached a relatively international normal standard. That is 2.2 percentage points. Banks have realized the highest interest rates that they can honor to their depositors.

The marketization of interest rates in the future manifests more in the improvement of systems and the optimization of competition. For example, if banks can compete through the way of the liberalization of interest rates, some banks that operate more efficiently can attract more resources of deposits so that they can use funds better and more efficiently, invest the funds into industries that have better benefits. However, if some small and medium-sized banks can get more support of deposit funds, it can also encourage the further development of our private economy since their traditional client base tends more to be small and medium-sized enterprises and private enterprises. Therefore, as for the point of full competition, it plays a crucial role in increasing the efficiency of China's investment and the sustainable development of its economy in the future.

However, the marketization of interest rates itself can not solve all the problems. If not supported with the reforms of state-owned enterprises and the fiscal and taxation systems, the reform of financial interest rates alone can not solve problems. If the budgets and the profits and losses of state-owned enterprises can't be effectively restricted, or they still stay in the situation of monopoly, banks will still be willing to lend more money to state-owned enterprises since it is relatively safe. If the entrepreneurial nature of the system of state-owned enterprises, including its exit mechanism and the status of social market, can't be changed, then we can't count on the marketization of interest rates to be able to better invest our funds into these high-efficient industries. On the other hand, if the fiscal and taxation system can't get reformed, the funds used to stimulate China's economic growth in a short term may still be obtained from banks through various forms. Unless the government has its own sources of funding that are stable and can be deployed in the conversion period, or the banks will still serve as the source of supporting funds with the nature of government loans in difficult times.

Therefore, the bank reform is only a part of the entire China's future economic reforms. That is not to say, after the marketization of interest rates and exchange rates and the opening of capital accounts, our task of reform is completed and the funds will be used more efficiently. In fact, in the process, only when the supporting reforms catch up can the fund effect be released after the marketization of interest rates gets reformed.

Reporter: In the international market, the Central Bank has not loosened completely the restraints of the usage of RMB. What's your opinion towards the value of the internationalization of RMB in the future?

Li Wei: The RMB is the direct reflection of the national economic strength in the international stage. The current RMB actually doesn't match China's economic strength completely. China has already become the world's second largest economy, but the use of RMB in the cross-border trade settlements as a reserve currency accounts for less than 2% internationally. Seen from the international value of RMB, it can not fully reflect China's current economic strength.

There are some problems in it. In the past, we manage the exchange rates of RMB: one is the exchange rate level. At least there existed a phenomenon that in early 2000 it was lower than its actual value; the other is that through some restrictions to the capital accounts, the RMB was made unable to flow fully and freely in the international market, which inhibited the reasonable performance of the value of RMB in the international market. In the future, we will explore the market value of RMB through marketization or the further opening of capital accounts.

If the currency can be recognized in the international market, it also represents a kind of recognition of international investors' and other economies' confidence in China's economic growth. The current economic system is to a large extent built on credit system, including the inter-bank lending of investments and financing. Even

the degree of involvement in the international status and the weight of saying are built on the international credit rating. Therefore, we can regard the RMB as a mark of China's international economic credibility.

I personally hold a quite optimistic view towards the prospect of the internationalization of RMB. With the continual improvement of systems in China, more and more investors, governments and economies will be willing to hold or use RMB, and RMB will gradually develop from the previous domestic currency into the international currency. This process will go through several stages: the first is that as a trade currency, trades settled by RMB now may have accounted for about 20% of the volume of import and export; the second is that as an investment money, how to go deeper into China's inter-bank market, or enter China's capital market as an investment depends on the step of the opening of future capital accounts; the third is that as a reserve currency, other countries are willing to believe the stability of China's economic growth, and hold RMB as their reserve assets; in the future if it can serve as a pricing currency for mass commodities, it will be better. For example, the prices of oil and food are all marked with RMB. These actually indirectly reflect the international status of RMB or China. Only when China's international status gets promoted can China say that it has really completed the development goal we set for the future ten and twenty years.

Gabriel Matthew Leung: Find the Point of Balance for Dealing with National Health Challenges

Interviewer: Sun Liangyu



Gabriel Matthew Leung

Gabriel Matthew Leung is currently the Dean of the Li Ka Shing Faculty of Medicine of University of Hong Kong and the former Director of Office of the Chief Executive of Hong Kong. He has served as a consultant in many international organizations, including World Health Organization and World Bank. His research and teaching focus on public health subjects of great influence in Hong Kong, China's Mainland and the rest of East Asia.

There are different areas in health system, which I call Point of Balance, in the same way like a dash board control of a car, such as insurance system in the administrative district, the number of grade A hospitals and basic medical centers, all of which can be adjusted in the formulation of public health system. The quality of these points of balance will determine the height of health system goals in the future 15 years.

Reporter: The topic of your sub-forum is “An Innovative Approach to the Sustainable Development of Environment and Health System”. Could you talk about your views on the development and innovation of China's health system

from both politics and academic perspective and how to deal with “National Health Challenges in 2030” for Asia?

Gabriel Matthew Leung: I choose this topic because of Millennium Development Goals.

We had a dream in 2000 that we are going to achieve these goals of international public health in 15 years and the next year is 2015, when Millennium Development Goals will have been half finished. As a member of the world, what can we do from 2015 to 2030? In my opinion, there are four directions:

First, communicable diseases control, such as SARS and H7N9. Apart from that, many other so-called chronic diseases also begin with communicable diseases, like HPV, nasopharyngeal carcinoma common in Cantonese people and gastrointestinal carcinoma common in East Asians.

Second, chronic disease control. In developed areas like Beijing, Shanghai and Guangzhou, there are the heaviest burdens of diseases with over 80 death toll of chronic diseases, showing the importance of chronic disease control. Chronic diseases include cardiovascular disease, cancer and other noncommunicable diseases.

Third, environmental health problems. Air pollution in our country is increasingly serious. In this year’s National People’s Congress and Chinese People’s Political Consultative Conference, Premier Li Keqiang also emphasized that the government must strengthen ecological and environmental protection and wage war on pollution with heavy-handed efforts on prevention and control of pollution. In addition, medical problems caused by traffic accident should be paid equal attention, as they cause heavy disease burden in cities. According to a global research report in April, 2014, the disease burden caused by traffic accident in China is heavier than its peers. These are what I refer to as environmental and

health problems which are exogenous problems instead of endogenous and individual ones.

Fourth, medical problems caused by imbalance of economic development. The massive imbalance of economic development between the east and the west of China has a great influence on people's medical care.

Medical health has benefited a lot from current high technology. What is most important is how can district officials apply technology resources to their own administrative districts. It calls for an overall medical health system. For example, a surgical doctor out of public health system have the need to get professional facilities from health care system when he needs them. There are different areas in health system, which I call Point of Balance, in the same way like a dash board control of a car, such as insurance system in the administrative district, grade A hospital and number of basic medical center ,all of which can be adjusted in the formulation of public health system. The quality of these points of balance will determine the height of health system goals in the future 15 years.

Reporter: What do you think of hospital integration's function in the whole health system? How to strengthen primary medical system in mainland.

Gabriel Matthew Leung: Hospital integration is combined by primary medical care, second-class medical care and third-class medical care(like Hua-Shan Hospital). Hong Kong does not do well in hospital integration either, where government invests most on public hospitals while private hospitals constitute primary medical care stations. In fact, wealthy people prefer to go to public hospitals even with minor ailments rather than go to primary medical care stations.

Shanghai has done a pretty good job in primary medical reform and some projects quite well in mainland.

As to primary medical system, the key is how to put government investment in primary medical care in more provinces throughout the country. Thus, fewer people would go to third-class (grade A) hospitals with better primary medical care. Compared with publicity, the supply of primary medical system is more important. For example, the improvement of salaries of primary medical nurses and doctors will attract more high quality health personnel working in primary medical system. Meanwhile, the quality of medicine in primary care stations should reach that of third-class(grade A).

Reporter: Hong Kong SAR Government is going to put forward volunteer medical insurance plan this year to relieve public health system pressure. What is your view on it and can it spread to mainland?

Gabriel Matthew Leung: We have a lot to do about communicable disease in our country, such as SARS, AIDS, tuberculosis and other endogenous diseases. Our team hope to make contributions to the country in technical fields and we have a lot of cooperation with national centers for disease control and prevention, such as the treatment on foot and mouth disease.

Last year, the “Innovation Center for Communicable Disease Diagnosis and Treatment”, co-founded by Zhejiang university, Tsinghua University, University of Hong Kong and Chinese Center for Disease Control and Prevention with Zhejiang university serving as lead, made breakthroughs in the control and prevention of human cases of bird flu H7N9, etc. Currently, they are also exploring new items of cooperation on similar researches, like diagnosis and treatment of hepatopathy.

Reporter: When you served as acting officer of health bureau, you once said to crack down on “birth tourism agency” for the maintenance and sustainable development of Hong Kong obstetric and pediatric service. What do you think of current situation and future of the phenomenon that mainland mothers give birth in Hong Kong as it is very popular in mainland China.

Gabriel Matthew Leung: Mutual understanding is the most important thing. In different regions of a country, people should see the same thing from different perspectives. As to the occupation of education resources, it is not that simple either and from the perspective of history, it is clear that all Hong Kong residents came from China mainland.

Lv Jianzhong: China can hardly copy America's Success in the Shale Gas Revolution

Interviewer: Xu Ke



Lv Jianzhong

Vice Dean of China Petroleum Economic and Technological Research Institute, Doctor, Professional senior economist, Expert on energy strategy and policy.

There is a long way to go for China in shale gas development and it is hard to copy America's success. China may make mistakes in its strategies if we believe that the rise of shale gas has influenced the development of new resources.

Reporter: According to the data, investment on new resources (photovoltaic, wind power, geothermal resources, tidal energy) has plunged in recent five years. It is said that it is shale gas revolution that has caused this. Will the popularization of shale gas hinder the development of new resources?

Lu Jianzhong: It is possible. Energy diversifying is a trend for both China and the entire world. What affect the development of new resources are firstly technique problems, mainly technological maturity, secondly economic problems, namely

high cost of extraction, lack of competence and government support policy and thirdly, popularization problems, small production of new resources and difficult access to them compared with self adjustment and improvement of traditional resources, like clean coal technology, coal bed methane and coal combined oil technology. In this process, the approaching shale gas revolution in North America may give people more confidence in the development of traditional resources and slow down investment and exploitation on new resources.

Undoubtedly, there is rivalry between traditional energy and new energy as they can replace each other. If shale gas can be counted as a competitor of new resources, that is because shale gas revolution rises at the same time of the preliminary development of other new resources. There would be other competitors even if there had been no shale gas. Of course, China can hardly copy America success in shale gas and there is a long way to go. It is necessary to continue supporting the development of new energy when promoting the development of shale gas.

Reporter: Shale gas accounted for less than 1% in the supply of natural gas in America in 2000 and makes up 40% this year. China, according to a data released by foreign institutes, has the most recoverable shale gas in the world. Then, will the popularity of shale gas change the energy supply pattern of China?

Lu Jianzhong: According to data from various sources, it is undoubted that we have a wealth of shale gas reserve and as to its ranking, it is not important. However, we lag far behind America especially in resources, technology, market, infrastructure, policies, etc, because we began very late in the extraction of shale gas and can hardly achieve massive production in the short term. In fact, our production was only 200 million cubic meter last year, barely a fraction of American production. The twelfth five-year plan of shale gas has set a huge production goal and we have to rely on large companies(like Chinese Petroleum

Corporation and China Petroleum & Chemical Corporation) massive investment. We will wait and see whether these goals can be realized in the next year.

China energy consumption has relied heavily on coals for many years and will not change for a very long time. We expect the development of natural gas can improve energy structure namely reducing the proportion of coal consumption and increasing the proportion of natural gas. Therefore, we can not stake everything on shale gas but rely on conventional gas, tight gas, coal bed gas, shale gas, coal gas and imported gas, etc for the development of natural gas.

Reporter: In the extraction of shale gas, we know that State Development and Reform Commission has issued policies to encourage the introduction of shale gas extraction technology.¹ Does Chinese Petroleum Corporation have any independent innovation and development while introducing foreign technologies?

Lu Jianzhong: The adaptability of imported technology should be taken into consideration and imported technology must be improved according to the users' resources, geology and ground conditions. Foreign technology services are very costly, therefore we are self-reliant on most technologies, but still introducing core technologies. Though we are accelerating the development of technologies, there is still a long way to go. Presently, China has great breakthrough in shale gas extraction technologies with those large companies, in addition to China Petroleum Company, enlarging study and devotion and marshaling forces to tackle key problems, with hopes of developing technology series. We are now in possession of several important breakthroughs in key technologies such as horizontal well technology, segmentation fracturing technology, industrialized drilling, micro-seismic monitoring technology, rotary steering drilling technology, etc.

¹ In *Catalog of Preferential Technology and Production Importation* (2014 edition) published by Development and Reform Commission, Treasury Department and Department of Commerce, shale gas extraction and utilization technology is in the list of preferential imported technologies.

Reporter: American has taken a series of methods of taxes incentive or subsidy to encourage new resources development since 1980s and Chinese government also pay much attention to policy support. What is the effectiveness of policy support in new energy development?

Lu Jianzhong: Both technological feasibility and economic rationality are indispensable in promoting the development of shale gas and new energies. Without economic rationality, we can not attract investment with merely technological feasibility, especially when we are attracting social capital to shale gas extraction to which enterprises will show no interest without preferential policies in tax, price and debt. As a new energy, shale gas or other new energies have no price competitiveness compared with conventional energy even imported energy and will not enjoy development without subsidy and policy support. Thus, policy support is critical to new energy in that it affords it economic rationality, makes related enterprises sustainable and gives investors motivation.

Reporter: A securities investment planner thinks that China will not outmatch America in shale gas extraction from the aspects of technology and capital and its dominant motive force should be national strategy for development. Do you agree with him?

Lu Jianzhong: It is ideal to look shale gas extraction from the national strategy view like introducing Russian natural gas to allocate various resources and capacities to promote it. As is mentioned above, we only had 200 cubic meters shale gas production last year, 630 million cubic meters less than our target of the next year's 650 million cubic meters. Thus, the efforts of social capital and market only can not achieve that target unless we rely on nation's power again. Now, the hope is on the horizon when China is carrying the strategy out with central government owned enterprises and China Petroleum Company, China National Offshore Oil Corporation and the China Petrochemical Corporation and push it

forward as a major strategy by the nation.

Reporter: We know that the extraction of shale gas will consume a large quantity of water with the potential danger of water pollution. Has China Petroleum Company taken into account this question and what measures have you done to avoid this question with many shale gas project being undertaken presently?

Lu Jianzhong: Shale gas is clean energy for the sustainable development of society and it produces less carbon dioxide than coals and petroleum when burnt. However, there are some environmental risks in its extraction, mainly because the extraction involves using a lot of water to fracture which may cause earth quake and involves using chemicals which may leak. While present technologies can prevent these environmental pollution from America practice, we have to admit that shale gas extraction still has the possibility of water resource wastage and underground water pollution. So we are discussing new fracturing technique now and in the future we may solve this problem by using carbon dioxide, liquefied natural gas and even waterless fracturing technique.

China Petroleum Company pay great attention to environment protection in shale gas extraction and gives priority to all questions related to environment protection. On the ground, HSE² is a veto and everything that is not in accordance with environment protection will be avoided. As to the underground, we take strict measure to prevent any leak during water fracturing and water pollution. We have zero pollution accident in China shale gas extraction thanks to a series of strict protection measures.

Reporter: You once said that China shale gas development was open not only to foreigners but also to Chinese private enterprises and local enterprises.

²Health Safety and Environment Management System, a general management system in international petroleum and natural gas industry in recent years.

How is it demonstrated?

Lu Jianzhong: When it comes to foreign enterprises, international oil companies like Shell, TOTAL, Chevron, BP, etc, and some technical service companies like Haliburton company, etc all come to Chinese market of shale gas extraction. However, foreign companies can only cooperate with Chinese companies to develop shale gas as only Chinese companies have mining right according to Chinese mining right laws. As to local and private enterprises, they are active and have won a lot of bids in the bidding of shale gas mining rights in recent years. They were very optimistic until they joined it. For example, it costs seventy to eighty million yuan to just drill a well in Chongqing. Private companies can not take much risk and for any industry, even it is open to all, not everyone has the capacity to undertake it.

Reporter: Will shale gas have a different development pattern compared with that of natural gas.

Lu Jianzhong: Different from conventional gas, shale gas is characterized by low production from a single well and dependence on more numbers of wells to improve productivity. Therefore, large pipes are not applicable in some shale gas fields while distributed energy³ is a good choice.

For example, we can compress extracted shale gas into LNG⁴ to transmit or generate electricity locally, developing distributed energies by using good energy storage techniques. They are, of course remote to us while more practical choices are choosing those experimental extraction areas which are near present pipes and market.

³ A comprehensive energy utilization system distributed in client site. It can directly meet customer's various need of cascade utilization of energies, reducing energy loss in long-distance transmitting and improving safety and flexibility of energy utilization efficiently.

⁴ liquefied natural gas

Meng Qingyue: Medical Insurance System should be Affordable to the Public

Interviewer: Sun Li



Meng Qingyue

Professor, Doctoral supervisor, Dean of Public Health Department of Peking University, Executive director of China Center for Health Development Studies of Peking University, Director of Key Lab for Health Economics and Policy Studies of China's Ministry of Health.

Three most important questions in health financing: the raising, the management and the use of money. Only by solving these problems can we achieve goals of efficiency, fairness, quality and sustainability of health system.

Reporter: The new medical and health system reform of China aims at achieving universal health care by 2020. What are the challenges and opportunities do you think in this process?

Meng Qingyue: We should think which stage we are at in the first place. Achieving universal health care in 2020 means that everyone is entitled to basic medical health service and citizens will not be left in financial difficulty for these services, which is our basic goal. To analyze the degree of fulfillment of our current goals, we can refer to a frame of WHO, namely population coverage,

service coverage and fee coverage. Universal health care not only provides people with a system like medical insurance system, equalization of basic public health, etc, but also provides sufficient and relatively proper service through these systems. This system should be affordable to common citizens rather than costly so that no one will be driven into poverty due to heavy disease burden. In this sense, we have been at the stage of high population coverage and the coverage of basic medicare insurance and basic programs of public health(planned immunization, maternity and child care, including the control and prevention of some communicable diseases) is very high. However, there are still some questions in other two angles, namely the coverage of service and the fee with some services not being covered in medicare insurance and the quality needing improvement. What is more, poverty caused by diseases still exists.

Although the coverage of medical care is broad with high coverage rate and heavy investment of the country, the mass still have very heavy disease burden. There is no evident decrease of poverty caused by diseases and the improvement is not as satisfying as we expected. Therefore, we can safely draw the conclusion that the coverage has reached a certain degree presently, but service coverage and the relief of disease burden should be improved. Medicare service should be improved and broadened to guarantee its quality on the ground of higher coverage. From the perspective of economic cost, we should relieve citizens of disease burden effectively especially those low-income groups.

Reporter: Why is there no obvious decline of poverty caused by disease and what is the link between this phenomenon and medical health system reform?

Meng Qingyue: This phenomenon mainly happens in low-income groups. Firstly, the income gap has been increasing and this problem has not been solved properly in terms of macroeconomic policy and income distribution, which makes the poor ever poorer, the rich richer and the poor more and more sensitive to the vulnerability of consumption and medical service. Secondly, among many

progresses in the whole medical health reform, one is a rapid improvement of health service use efficiency. From 1980 to 2012, admission rate has improved from 2.3% to 13.2% and the frequency number of outpatients have increased from 2.6 to 5.1. From 1980 to 2000, admission rate increased by 2% per year and from 2000-2010, it increased by 5.8% per year. The fee of public health consists of the use of health service and unit value and the costs increase with the rise of using frequency, thus increasing family's disease burden. The goal of public health reform is to improve public health use ratio and to relieve economic burden at the same time. However, there is contradiction between them in that the improvement of use ratio may increase economic burden. Among various elements that contribute to poverty caused by disease, this is an important one. Thirdly, in general, the control of medicare service is not satisfactory. In recent years, the fee for treatment and accommodation has soared, among which some are reasonable and some are unreasonable, such as unnecessary medicine and inspection, which increase medical health fee on the whole and increase their economic burdens.

Reporter: What is the position of health economic reform in medical and health system reform in your opinion?

Meng Qingyue: Health economic reform plays an important role in medical and health system reform and it mainly consists of three parts: the resource, management and using of money, which needs to be considered in every country, including the richest. People's need for health is infinite, while medical resources are finite. Thus, questions arise on how can we get money efficiently and impartially and how to use money efficiently. Only by solving these problems, can we have an efficient and high quality medical service in a system or a society. What health economic institution researches is what is the resource of money: citizens, medical insurance system or taxes? There are different patterns in the world and each has their advantages and disadvantages. China funds medical service by basic medical insurance system and supports basic public health service with part of taxes at present.

The question behind rapid increasing health service fee is that health expenditure has not been spent properly or in other words the expenditure has not been used in badly needed area to generate effective services which are acceptable to common people and help them in health improvement. Further, has a large proportion of money been used in high grade health services in cities or used to meet the need of basic medical insurance at first place, namely has impartiality been considered in the use of health funds. It is crucial to figure out whether public property is used to help those who need medical service more badly in poor areas or used disproportionately in developed, urban and rich areas.

Reporter: When it comes to “where does money come from”, you pointed out in *Inspiration of The World Health Report 2010 on Chinese health financing policy* “Setting a clear portion of money from tobacco and wine taxes for health and the establishment of health funding is worth considering.” Why is it and how to carry it out?

Meng Qingyue: It is World Health Organization’s advice in 2010 world health report and China has also been trying to carry it out. Actually, developing countries all pay much attention to imposing taxes on health damaging products for following purposes: firstly, make people consume less tobacco and wine because of rising prices and it is an important aspect in health. Health improvement will be achieved by reducing consumption of health damaging products. Secondly, make taxes on those products special taxes like special taxes on education and medical health education tax to make medical resources more accessible. This kind of tax is an important way to accelerate health improvement and is practical in China as well. Chinese tobacco tax rate has been raised for some times and much of it has been put in public health service budget though not all of it has been spent in health system. That is to say despite the fact that tobacco tax is not written in the list of health budgets, it is spent in the health in China and it is just a question of system.

Pan Jiahua: Emission Cuts should be Based on National Situation

Interviewer: Chen Yijia



Pan Jiahua

Director and researcher of Center of Urban Development and Environment at the Chinese Academy of Social Sciences, Director of center for sustainable development research, Professor of graduate school, Doctoral adviser, Committee member of National Expert Committee on Climate Change, National Advisory Committee on Foreign Policy, Vice

president of Chinese National Committee for Future Earth.

China cannot make a commitment to the speed and clear amount of emission cuts as developed countries do, but can and should make a commitment to reduce any increases in greenhouse gas emissions as well as the speed, range and scale of zero-carbon energy development and low-carbon economy development. International climate agreement negotiations are not necessary and cannot reach one single agreement that suits all economies. The commitment is sensible and practical that is based on each nation's situation.

Reporter: The fifth report released by IPCC in March of this year defines vulnerable groups, industries and ecological systems in the face of climate change on a global scale. Given the current environment situation of China, how do you interpret this vulnerability and how can we overcome it?

Pan Jiahua: Abrupt climate change will make eco-systems more sensitive and vulnerable and increase various risks. Firstly, the developed areas of China including the Yangtze River Delta, Pearl River Delta and Bo Hai Sea Rim Area are all coastal areas which will be threatened by unforeseen risks of a rise in sea level caused by climate change. Secondly, sources of China's major river are mostly located in the West, therefore climate change will not only affect West China's environment but also worsen the environment of China's Eastern region. Thirdly, the loss of biological diversity is a symbol of vulnerability where animals and plants will die away if the temperature rises too abruptly and this is not only about an eco-system's vulnerability but also about the collapse of an eco-system. Human beings will not be immune to effects from this. Fourthly, the increase of the frequency and intensity of extreme weather has great influences on human beings. For example, we have rigid demand for water and which will not decrease when the natural water supply decreases. Even though we can reallocate water by engineering approaches like the South-to-North Water Diversion Project, climate change may result in a deficiency of water resources in places like River Han, thus rendering the engineering project useless to cope with climate change. Therefore, we should slow down climate change by addressing its root cause to live in better harmony with the rest of the world.

Reporter: This report also points out that in the past ten years, the main cause of the greenhouse gas emission increase is due to the rise of energy needs and proportion of coal powered plants in international fuel structure. What is your opinion on the adjustment of the energy structure of China in recent years.

Pan Jiahua: The main ways to cut of greenhouse gas emissions are firstly reduction of total energy consumption and secondly change our sources of energy. Currently, when China is dire need of energy due to rapid social and economic development and industrial expansion (they will be stopped without energy), reducing total energy consumption in a developing country is out of the question for the moment. Hence, we should alter our energy structure by reducing fossil fuel consumption and increasing the use of renewable energy. Now, China has renewable and zero carbon resources in a large scale, fast production speed and excellent effects. For example, Chinese low cost solar energy water heaters are considered the best in the world and this kind of non-commercial energy can facilitate thousands of families with good outcomes and low cost. Nowadays, the price of solar power has decreased to 0.9 yuan per kWh and that of wind power to 0.51 to 0.6 yuan. These commercial forms of clean energy can gradually replace fossil fuels with further technological development. Instead of using coal and oil to facilitate social and economic development, we can use renewable energies to not only meet development goals, but also to reduce greenhouse gas emissions. The goal of the twelfth five-year plan outline is that by 2015, non-fossil fuel energy consumption of China will account for 11.4% in primary energy consumption. China is paying great attention to non-fossil fuels and is giving them full support.

Reporter: In international climate negotiations, there is an increasingly louder voice asking China to switch its identity and shoulder more international obligations, but China hasn't said much. How should China adjust its position and attitudes in the new pattern of international climate negotiation according to your years of observation of international climate negotiations.

Pan Jiahua: China's international status, negotiating positions and partners have been changing continuously as a developing power and a large emitter of greenhouse gases with fast economic development. Our direction and principle of curbing greenhouse gas emissions to slow down climate change is not changing, except our position on how to reduce emissions. Firstly, we emphasize the

importance of development and emission cuts. We used to advocate for development in first place but now attach equal importance to both development and emission cuts. In the future, emission cuts may become even more important and all of these should suit the stage of Chinese development. Secondly, we have to take practical actions to cut emissions. After the Kyoto Protocol came into effect, China has taken effective steps to reduce carbon emission as a response. Thirdly, we strengthen cooperation with developing countries. Developing countries need to communicate and cooperate with each other more frequently on issues like greenhouse gas emissions and development. Fourthly, we learn from developed countries. We should integrate systems of developed countries and learn their experiences on emission cuts. We used to reprimand and scold them, however, now we seek to cooperate with them effectively to restructure laws and regulations. In sum, firstly we are adamant in our position on fighting climate change. Secondly, our attitudes and positioning should suit our national conditions and have certain adjustment.

Reporter: Now that China has become the world's largest emitter and energy consumer, it is argued that China should agree to a legally binding deal to reduce greenhouse gas emissions to the same degree as most developed countries? What is your opinion on that?

Pan Jiahua: Every country should take effective measures to fight climate change and make their own commitments, but their prerogatives are different. Developed countries are able to make a pledge to cut emissions, but it is impossible for developing countries to make a commitment to absolute carbon emission cuts because they are still in the process of developing. We should consider different consumption levels of different countries. Take the car ownership rate as an example as it is an important consumer index. There are over 800 cars for every 1000 people in America, 600 in Europe, but several dozens in China. Meanwhile, there are 230 million migrant workers and a considerable number of people are living in poverty making the increase of energy consumption indispensable for industrialization, urbanization and economic development. Therefore, we cannot

make a commitment to emission cuts as developed countries currently do and should pledge to reduce greenhouse gases increase rate and to develop zero-carbon resources and low-carbon economy. We make different commitments, others are not not practical or sensible unless they suit our country's conditions.

Reporter: On 24th April this year, this new Environmental Protection Law was passed after the fourth deliberation, the first amendment 25 years after its introduction. It is regarded as “the most strict environmental protection law ever”. In what areas does it constitute as “strict”?

Pan Jiahua: Environmental protection law in China has been developing from theory, writing, a testing phase and strict implementation. It is a long process overall. When the development of an economy reaches to certain stage, there will arise economic disparities and environment pollution. Thus, a stricter and practical set of laws is needed. Here, “stricter” means firstly more comprehensive control. In the past, we emphasized terminal management more but now full coverage supervision is needed at the source, during the process and with the end product. Secondly, it means more strict regulatory standards. Formerly, environmental protection law was very lenient but now we need stricter standards and more rigorous rules. Thirdly, it means stricter enforcement and punishment. The cost of breaking the law was low and the binding force was weak before. Now, enforcement and punishment of the law is tighter and as the public pay more attention to their health and environment, the time of the enforcement of more strict laws is now.

Reporter: Presently, China has issued some policies to support the central and western regions of China to undertake transferred industries from eastern China. However, you mentioned that this investment transfer is a kind of passive transfer and may add to pollution in central and western region of China. Can you explain it in detail?

Pan Jiahua: There are two reasons behind the support of industry transfer: firstly hoping for balanced regional development and secondly the existence of a broad space for development in west regions. I should say the idea of industry transfer is good, but it works out badly in light of the existing situation. Firstly, most transferred industries from the east are dying industries instead of advanced or low-pollution and efficient high-tech industry. Eastern regions will not transfer high-tech industry to western regions and neither is the latter capable of undertaking high-tech industries. Secondly, west region has geographical disadvantage. While eastern regions are coastal areas close to world market, western regions are inland areas far away from consumer market and lack locational advantage. Thirdly, there is a vulnerable environment in western regions. There is abundant rainfall in eastern China and pollution control is relatively good with strict management. Western China, on the other hand, has little rainfall and a vulnerable environment. Without strict management and excellent pollution control system, pollution in western China is harder to control. Fourthly, the west of China is a physical barrier and source of the rivers and wind for the east. As several major rivers of China originate in western China, pollutants in the west will spread to the east with water and wind, causing secondary pollution.

Reporter: Then, how should western regions develop?

Pan Jiahua: I don't think western China should copy the pattern of the East, because they are not qualified for large scale urban infrastructure construction, population expansion and industrialization. Their development should rely on resource transmission like west-east gas transmission projects and so on, which can protect its environment and ensure the continual improvement of living standards. Large scale population and industry transfer will be catastrophic to western China and are also damaging eastern regions. If eastern China is not willing to transfer advanced technology, what west regions will not be able to do it.

Peter Daniels: China's producer service industry still has a long way to go

Reporter: Ma Yanjiao



Peter Daniels

Peter Daniels is Emeritus Professor of Geography at the University of Birmingham in the United Kingdom. He was previously Deputy Pro-Vice-Chancellor at the University, a founding member and past President of the European Research Network on Services (RESER), Director of Merlin Venture Ltd., Castle Vale in Birmingham (a non-profit economic and social enterprise), and was Honorary Secretary of the Institute of British

Geographers.

The difficulty with the current approach is that there is too much concern with delivering infrastructure without worrying about whether it is in the right place, at the right time or meets the requirement of the usages of infrastructure.

Reporter: Our interview today will focus on urbanization and the producer service industry. How do you see the changes happening in China's producer industry?

Peter Daniels: The changes are very quick, but there remains a gap relative to economies elsewhere in Asia as well as in other parts of the world. In Europe and North America, services comprise some 70-80% of employment and maybe 70%

plus of GDP. Whereas in China, the figures are more like 42% of services in GDP, and a bit less in total employment. There is change and it's impressive, but China as a whole still has some catching-up to do, and part of that will be in the form of an increase in the share of producer services. These are the services that other services and activities such as manufacturing use as inputs to the production of goods and/or services: accounting services, design services, marketing services, and so on.

Reporter: We know that the government determines the model of China's urbanization. For example, in some cities the government regulates the influx of labor workers. Some scholars view this government-dominated urbanization as arbitrary and inflexible, while others believe that this is the best way to help China avoid setbacks and detours. What do you think of this? Do you think there can be a balance between the two?

Peter Daniels: We have to stand back and recognize that in China, the development process takes place within the framework of what I would call a socialist market economy in which the central government executive exercises a greater influence on the development process than in free market economies. You could argue that this is just a stage in China's development since the opening after 1979. At this stage, it is complemented by a limited degree of private sector engagement. But as the development process becomes more advanced, one might expect the central involvement to diminish, allowing the market to make more contributions to the patterns of development.

Based on what I have seen in the Chinese cities, I get the sense that the priority is to deliver the infrastructure, rather to match the supply of infrastructure with expressed demand. By infrastructure I don't just mean railroads and highways, but also the office buildings, business parks, retail parks, and related spaces that are appearing across Chinese cities and regions at an enormous rate... The theory seems to be that if you build a new center on the outskirts of a city, it will create

conditions that will attract and encourage business industries to thrive. The market is perhaps better at identifying what is required than determining where the required infrastructure should be located. There are numerous large-scale investments and housing projects by the government and sometimes in partnership with the private sector. It is striking how many of these projects are standing empty or only partially occupied. Is it because they are in the wrong place? Have they been provided at the wrong time? Or is it because they don't match demand?

Reporter: Do you know the city Zhengzhou in Henan Province? Some people call it ghost city because in several parts of the city, there are many advanced modern office buildings but no companies move in.

Peter Daniels: Perhaps that is one of the downsides of the current urban development system, which is directed by central elites and policy planners. But perhaps over time we will see a gradual transition to a freer market system in which the allocation of resources is more carefully matched with demand and the needs of the market. I understand that in China, many of the new buildings and projects in the provinces and in the provincial cities are initiated or led by local politicians who need to show to the central government that they are delivering such projects.

Reporter: I also read an article from the *Financial Times* a few days ago that the World Bank is calling for China to keep increasing its urban density, whether it is population or space density. But with masses of people continually flowing in, the city is already incredibly crowded, and we can see the city's infrastructures are already failing to provide services. And on top of this, there are various social issues up in the air. What do you think of the view of World Bank? Should we keep increasing our intensity?

Peter Daniels: I think if [China] keeps increasing the intensity, in some respects, you might say that is good because it will help to sustain important benefits from

agglomeration economies. These benefit both employers and employees, provided that the infrastructure is put in place. Some large Chinese cities are not only a third the size of United Kingdom in terms of population, like Shanghai or Chongqing, but they are also quite extensive. If you keep them dense, the infrastructure investment is perhaps lower, but it must be high quality and it has to support the high densities. The other disadvantage of encouraging continuing high density is the negative externalities relating to the environment, such as air pollution, traffic congestion, waste management, and all the other negative aspects of high-density urbanizations. Further, if there is a continuation in the preference for high-density living, there will be a higher cost of living in cities, as we've seen with the inflated property prices in Shanghai, Beijing, and many other big cities.

Perhaps the problem would be mitigated if cities were allowed to spread at low density. I haven't seen that kind of report for Chinese cities, but certainly there is some experience from Europe. European cities grew to a certain level and then as the negative externalities began to increase, people and businesses started to express a preference for moving out into the rural areas. In some cases this was encouraged using government-initiated policies for decentralization to new towns or for relocating civil servants – so there is a place for government involvement in city development market economies as well. The shift to lower densities has been sustainable because agriculture productivity has increased so that the loss of agriculture land has not necessarily been so important. From my understanding, in China [agriculture] is a big consideration. At this stage, there are so many dimensions that I think that the high density versus low density debate has a long way to go in China.

Reporter: It has been reported that the infrastructures of big cities in China like Shanghai and Beijing are not fully developed. In Paris there are about 133 crossroads per square kilometers, in Tokyo there are 211, but in the Pudong District of Shanghai, there are only 17. They believe we still need to build more infrastructures and increase the density.

Peter Daniels: Yes, but it is worth noting that Paris was developed in a very different time period when the transport facilities that were available were far more limited in terms of the ability of cities to spread. I am not sure that it's reasonable to make a comparison with the density of intersections in Paris. In cities like Beijing, much of the way they have grown has been shaped by transportation technology available in the last thirty years, which is totally different from the technology and capacity of the transport technology available in central Paris in the early eighteenth century.

Reporter: Can we say that [China is] not in the same urban development stage?

Peter Daniels: Yes, I don't think China is at the same development stage. Again, it is lagging for entirely understandable reasons... You either live in a rural area in China where you are a part of the rural economy, or you move to the city and you are a part of the city economy. In much of Europe, the cities rely, in terms of sustaining their functions and their economy, on substantial commuting. In most Chinese cities commuting does not appear to be as important as in European cities. There is commuting in Chinese cities, but for now it is within the city rather than from outside into the city.

Reporter: But work in the city.

Peter Daniels: In Europe they work in the city, but they live their daily home lives in the countryside... In the case of London, for example, over one million people commute into the city by train and car every day, many living 80 kilometers or more away. So in that sense you could argue that city development in China is behind the European model. One assumes that as the urban economy matures, as income continues to increase, and as families are able to exercise more choice in where they live and how they live, you might see more city residents choosing to live outside and commute. But the problem for China will be that this threatens

scarce land resources that would become even more so if more people wanted to live outside the cities.

Reporter: But as far as I know, more and more Shanghai people buy houses in nearby cities like Suzhou and Kunshan, but they work in Shanghai.

Peter Daniels: Oh really? Those who can afford to live in the city will live in the city. But China has so many people still living in rural areas that will want to move in the cities when the chance comes. Maybe that's part of the thinking of the World Bank that [China should] create more cities, or simply increase the density of existing cities. If the *Hukou* system is relaxed, it will increase the pressure. And I understand that initially this relaxation will not permit people to move into cities like Shanghai and Beijing, but it will allow migration to the small and medium-sized cities in the center of the country and in the west. And that's part of a bigger vision for economic development in the West that will boost the economy and help to reduce the imbalance relative to the coastal provinces. Producer services will be an important part of this strategy since they are relatively beyond the coastal provinces

Another complication is the relaxation of *Hukou* system. I understand that the central government has indicated that they will begin to relax it gradually, and it will take time. But it seems that whether you continue to encourage the existing cities to become larger and denser or not, the pattern of urban development will have consequences. For example, being larger will cause land shortage and food security issues. Therefore, maybe you have more choice, but problems will still exist.

Reporter: Is there anything else that you would like to add?

Peter Daniels: From a producer services development perspective, we know from European examples that they tend to concentrate disproportionately in large cities

where they are able to access the clients most likely to require their expertise as well as the highly skilled labor that they require. There is no reason to think that this behavior is not found in China as well, so at least for now the dominance of large and fast-growing cities as part of China's urbanization is creating the appropriate conditions to sustain the further growth and diversification of these crucial service activities.

Qiu Liping: Shanghai and Hong Kong, No Competition, No Progress

Reporter: Li Mengxin



Qiu Liping

Deputy chief economist of the Hong Kong Trade Development Council, deputy director (in the Greater China).

Since China is such a huge economy, Shanghai and Hong Kong can always make use of it together. In addition, they can communicate and complement with each other. Competition is surely unavoidable, but healthy competition can only be a good thing.

Reporter: You have said that Hong Kong is still the first choice for mainland enterprises to seek for overseas services and cooperation. So what do you think gives Hong Kong enterprises an edge over foreign enterprises?

Qiu Liping: To be frank, the reason for mainland enterprises migrate to Hong Kong but not other foreign countries is not because enterprises in Hong Kong are better, but Hong Kong provides a service and financial platform for them. Besides,

we do business internationally and keep a good and deep relationship with countries all over the world. Mainland enterprises come to Hong Kong to look for their partners in need, because foreign enterprises in Hong Kong, or clients of some Hong Kong banks, investment banks or accounting firms owns some projects which are in need of overseas partners. In addition, some of their projects can complement and dock with those of China's enterprises. As a result, Hong Kong links them together as an intermediary. It provides them with other numerous services as well. For example, it will assist with mainland enterprises to make an investigation of the overseas market before investing, to evaluate the enterprise value and its net assets value, and to check the financial situation of the enterprise and to examine whether some legal issues are still in litigation. In fact, each enterprise is bound to make a careful investigation of the above issues before investing and what Hong Kong does is to provide necessary help for them.

Another reason is the capital flow. It will take a long period of time for the mainland government to approve a sum of fund to be invested to foreign enterprises. I have talked with some mainland enterprises before, the situation is that after a negotiation on cooperation and investment between a mainland enterprise and a foreign enterprise is done, the foreign enterprise believes the investment will be finished in a short time, while the mainland enterprise is still in the long march of being approved. However, foreign enterprise could not understand the situation and will not wait for such a long time either. Therefore, mainland enterprises will make compromise to invest and remit to an enterprise in Hong Kong at first so that it will be more flexible and efficient for them to invest in foreign enterprises. Therefore, Hong Kong provides a platform for mainland enterprises. With regards to your question, I want to say that the reason for mainland enterprises choose to invest in Hong Kong is not because Hong Kong enterprises have more advantages, but we offer them with more professional advices and services. Compared with foreign enterprises, we understand them better and it is more convenient for us to interact with them. Thus, Hong Kong is of vital importance in the investment link.

Reporter: Do you think these advantages will be challenged if Shanghai Free Trade Zone is established? Will free trade zone threaten the economic status of Hong Kong? There are some talks that Hong Kong is unwilling the establishing of Shanghai Free Trade Zone, and what your view on these talks?

Qiu Liping: At present, the free trade zone mainly aims to open the investment management and make more breakthroughs and development in finance. Besides, free trade zone is still the offshore finance by far and should be separated with the domestic capital market and investment. Therefore, free trade zone may not play the largest role if being used as a platform to attract foreign enterprises to invest in China. We still need to observe for several years to check whether it is beneficial for Hong Kong. Of course, free trade zone will provide a good opportunity for Hong Kong enterprises to develop. Hong Kong has played as a service platform all the time and most of our clients are mainland enterprises. Therefore, if mainland economy is growing better and better and having more space for doing business, it will certainly bring forth more opportunities for Hong Kong enterprises to do business in China mainland. Then you may ask, under this circumstance, how will enterprises in Hong Kong make their choices, will they choose to do business in Hong Kong or in the free trade zone? My answer is that competition is inevitable. Free trade zone plays a leading and exploratory role, which hopes to find a universal mode in three years and duplicate it nationwide. That means policies will be more open in the whole nation and the economy is expected to be promoted by changing policies. We often use one example to explain this situation: if one cake is divided by one more person, you would get less; but what if we make the cake bigger? You will still benefit from it. Therefore, as long as the competition is healthy, we will make progress.

Reporter: Do you think the free trade zone mode can be put into practice throughout the whole nation? Zhu Min, vice president of IMF, believes Shanghai Free Trade Zone mode is doomed to be extended to the whole

country, for it makes no sense if it only survives in the experimental area. Do you agree with his opinion?

Qiu Liping: As far as I am concerned, free trade zone differs from the previous bonded areas and economic development zones, for the latter ones use preferential policies to attract investors while free trade zone hopes to change government's function and process of governing enterprises as an experimental plot. Negative list management is a measure taken to make free trade zone more open and be in line with the international trend. The most important thing is that enterprises have more freedom in free trade zone and will not spend too much time contacting with government, thus their efficiency is improved. The promotion of free trade zone is welcomed by us on premises that it is only the free trade zone but not a very big market that is promoted. However, it is hard to say how long will it take. It is a good thing to regard a certain area as the experimental free trade zone if some new opening measures are not improved and economic security of the nation is not guaranteed. However, no one will be satisfied with only one market in the long term. Therefore, we also want the free trade zone be promoted nationwide if Shanghai Pilot Free Trade Zone became a successful one. Under that situation, real market economy would be achieved and Chinese economy will be better.

However, if a market is limited within a free trade zone, it will make sense. Compared with overseas market, anyone will at first pay attention to domestic market, let alone if the overseas market is small. Why Hong Kong with such a small area and market can attract investment and develop itself? This is because what many enterprises value is not only the small market of Hong Kong itself but the services that this open city provides for both the overseas and mainland enterprises.

Reporter: You have mentioned that in recent years, mainland economy focuses more on the transition and upgrading of its structure, and is changing from the externally-oriented structure to the combining of both the external and

the internal one. As a service center, Hong Kong again provides a new platform for mainland. On your point of view, what advantages do Hong Kong and Shanghai have respectively in developing service-oriented trade? According to Tu Guangshao, member of the Standing Committee of Shanghai Municipal Committee and executive vice mayor, “the core task of the next step is the facilitation of the service entity economy and the service investment trade”. Do you agree with him?

Qiu Liping: It is natural for our service to have hinterlands, since some services are regional. Shanghai faces the Yangtze River Delta and the Yangtze River while Hong Kong is connected with the Pearl River Delta. Therefore, factories in Hong Kong will not to seek for daily banking services or upgrading equipment or branding services in Shanghai. It would be much more convenient for them to seek for services from their nearby places. However, regional factors will not of that importance if a place is regarded as a financial center, for there are no geographic boundaries in financial field. However, finance is an important support for the real economy.

Since China is such a huge economy, Shanghai and Hong Kong can always make use of it together. In addition, they can communicate and complement with each other. I have mentioned about the influence of free trade zone on Hong Kong just now, competition is surely unavoidable, but healthy competition can only be a good thing. The most important thing is that Hong Kong will have more chances to do business through mainland services if China is deepening its opening and its economy is developing better. In addition, with the better developing of Chinese economy, there will appear more service centers like Shanghai and Hong Kong.

However, service is not used to serve for services but for the real economy. Since the real economy develops and changes at a rapid speed, we have to give priority to the market. Only in this way can they find what they are in need of. Otherwise, they will develop what they are requiring, and this is the philosophy.

Tang Guoqiang: The Driving Forces of APEC

Reporter: Shen Dawei



Tang Guoqiang

Tang Guoqiang is the former spokesman of Ministry of Foreign Affairs of the People's Republic of China, and has successively worked in the United Nations Office at Geneva, Embassy of the People's Republic of China in Papua New Guinea, the Information Department of the Ministry of Foreign Affairs of the People's Republic of China, and the Embassy of the People's Republic of China in the United Kingdom of Great Britain and the Northern Ireland. He was

once the deputy director-general of the Information Department of the Foreign Ministry, spokesman of Ministry of Foreign Affairs, deputy commissioner of the Office of the Commissioner of the Ministry of Foreign Affairs of the People's Republic of China in the Hong Kong Special Administrative Region, ambassador of the Embassy of the People's Republic of China in the Czech Republic, representative and ambassador of the Permanent Mission of the People's Republic of China to the United Nations and Other International Organizations in Vienna, etc.

TPP is just one form of regional trade liberalization and another important form of cooperation is the RECP which China participated. As far as I am concerned, RECP matches the actual practices of the Asia-Pacific region better.

Reporter: In 2001, the 9th informal Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting was held in Shanghai, and *Shanghai Consensus* was reached. According to *Shanghai Consensus*, trade liberalization was the keynote of the Asia-Pacific Economic Cooperation, planning to reduce the trade transaction cost by 5% in five years. Have the goal been achieved?

Tang Guoqiang: In fact, we have fulfilled the goal ahead, and on basis of which another 5% decrease was put forward, and it was achieved as well. Therefore, APEC launched the "Ease of Doing Business (EoDB) Action Plan" in 2009. The Action Plan sets an APEC-wide aspirational target to make it 25 percent cheaper, faster and easier to do business within APEC economies by 2015. This target will expire in the next year and each country is trying their best to achieve it. In the last 25 years, APEC has put forward a great deal of proposals and measures to promote the trade and investment liberalization and facilitation as well as the economic and technical development and cooperation in the Asia-Pacific region. It also came up with quite a few strategic targets to cope with economic crisis. Generally speaking, there is no other organization that can play such an important role in promoting the economic growth of the Asia-Pacific region like APEC. It is without doubt that APEC has some disadvantages. For example, in 2010, it set the goal to achieve the trade liberalization in the developed countries, but many countries did not accomplish it and was criticized by some people that it did not function well. However, in general, APEC plays a positive role.

Reporter: TPP (Trans -Pacific Partnership Agreement) has been exploring multilateral trade negotiations since its establishment in 2002, aiming to achieve the trade and service liberalization among its member countries. Some believe that TPP is turning into a small-size WTO which covers all the member countries of the APEC. Do you agree with this prediction? Will TPP take place of APEC in the future?

Tang Guoqiang: TPP is actually a form of trade arrangement in Asia-Pacific region, and is incapable of covering all the trade arrangements. At present, it owns only 12 members, many of which are relatively developed counties. It is obvious that the United States is actively promoting TPP and expanding its influence continuously, for it aims at setting an overall and superb standard for the international trade provided that the setting of standard is dominated by itself. But international trade in the future is not bound to abide by this standard and TPP is not turning into another WTO worldwide. However, all the regional FTA(Free Trade Arrangement) and RTA (Regional Trade Arrangement) , including the TPP, have contributed to the whole world trade system to some extent. Theses regional cooperation organizations were a supplement but not a confrontational factor in the long run. Although there were some difficulties in the course of the Doha Round negotiations, TPP will benefit the development of WTO in the long run.

Reporter: During the past several years, Japan has participated into the TPP negotiation, and South Korea is still striving for the right to negotiate. Some think that they are struggling over the initiative in economic diplomacy and trade talks. According to your point of view, will the bilateral and multilateral negotiation become the mainstream in the future economic cooperation? If yes, what positive steps shall China take?

Tang Guoqiang: It is too hard for developing countries to join into the TPP due to its high threshold. The reason for the tough negotiations can be ascribed to the divergence between the developed countries as well as the divergence between the developed and the developing countries. Many developing countries think the standard set by the developed countries is so high that once they join into the TPP, they would encounter lots of problems or even shocks. As a result, TPP is simply a form of regional trade liberalization.

In addition, another important form of cooperation is the RECP which is participated by China. In my view, RECP matches the practices of the Asia-Pacific region better. Firstly, it has 16 member countries currently, which is relatively large in number. Secondly, it aims to integrate the more mature FTA within the region, including 10+1, 10+3, etc, to make it more convenient for cooperating. Thirdly, RECP is a highly inclusive one and is established on basis of the industrial structure and economic development mode of Asia. Fourthly, unlike TPP which requires the participating countries to meet the standard completely on joining it, RECP allows them to have a gradual adjustment period. Because RECP has considered that some developing countries are still in a low level of development, and an adjustment period is necessary for them to adapt to the free trade arrangement of RECP. Lastly, RECP is transparent to all and will announce its negotiation to all, including TPP. However, the negotiation content and progress of TPP are confidential and will not be leaked to the outside world.

Reporter: China (Shanghai) Free Trade Zone is still endeavoring to further open up, such as making the negative list and the cross-border RMB settlement, etc. Will China take part into TPP or other multilateral trade cooperation negotiations of the similar kind?

Tang Guoqiang: China will further talk with related countries about the free trade zone. The negotiation will not be only limited to this region, but will expand to other areas. For example, China proposes to sign a free trade agreement with the EU (European Union), and is negotiating with the United States on investment protection agreement. With the deepening of the reform and opening up, China will continue to promote the negotiation and will achieve much more. But so far, it is a little bit difficult for China to join into TPP. On the one hand, the threshold of TPP is clearly very high. On the other hand, it is not just a wishful thinking of us, and we also need to obtain the approval of the existing member countries, especially

the United States. Therefore, we should do our own part first and deepen the reform put forward in the 18th CPC National Congress and the 3rd Session of the Seventeenth Central Committee of the Party. As an old Chinese saying goes, “When conditions are ripe, success will come”. By that time, we will meet the standard of trade linearization even if we finally did not join into TPP, and any decision is acceptable either.

Reporter: In 2001, the summit of APEC was held in Shanghai, the theme of which was trade liberalization and economic and technological cooperation. Since the APEC summit this year will be held in Beijing, will China have a new concern at this time?

Tang Guoqiang: The conception of FTAP (Free Trade Asia Pacific) was proposed by APEC in 2006, the goal of which is specified in 2010. It aimed to form a comprehensive and superb free trade agreement in the Asia-Pacific Region. Trade agreements like the existing 10+3, 10+6, TPP and Pacific Alliance in the Latin America region can be parts of FTAP in the future. Since China will host the APEC this year, we hope to bring FTAP into reality. Therefore, the topic of APEC this year is regional economic integration. To be specific, we will at first make a feasibility study on the principles and route of FTAP. The principles will not only cover the final goal of FTAP, but also involve the relationship between it and other regional and global trade agreements, such as the relationship between FTAP and WTO. When it comes to the route, it refers to achieve the goal of FTAP gradually in different steps.

Wei-Jun Jean Yeung: China should provide free or low-cost high school education to all youth

Reporter: Liu Shuwen



Wei-Jun Jean Yeung

Professor Jean Yeung holds a joint appointment in Asian Research Institute. She is the Research Leader of the Changing Family in Asia cluster in the Asia Research Institute and the Chair of the Director for the Center for Family and Population Research in the National University of Singapore. Her research encompasses American and Asian family demography and social stratification issues. Currently,

she is working on changing families in Asia, the impact of internal migration on Chinese Children, and human capital and intergenerational transfers in Asia.

China needs more human capital as its working age population starts to shrink. It will be nice if China could start all-rounded education and training as early as possible, not just focusing on academic training, but having better integration of schools and the labor market.

Reporter: You mentioned in Shanghai Forum 2014 that the current ongoing problem of the unemployment and underemployment of youth here in Asia. How do you define youth and adult here? What causes the unemployment and

underemployment in general?

Wei-Jun Jean Yeung: The definition of adult— is often a very arbitrary one. 18 is used as a legal definition in many countries, but it is not adequate for many purposes considering most people at 18 are still in schools. We define adults as those who are economically independent and psychologically mature. Obviously you can define it by age or other characteristics. There is no perfect definition, but there's a general agreement in the literature to conceptualize the period of transitioning into adulthood with the ages between 15 to 24 or 29.

In our paper, we examine three regions: East Asia, Southeast Asia and South Asia. They are different in socioeconomic development and demographic landscapes; however, the youth unemployment is all very high, which is very damaging to human capital development. In general, the most important reason is that many of the youth population don't have enough human skills, human capitals. Low education is one reason: enough education, or inadequate education to meet the needs of the market. Another prominent factor is the economic crises. During an economic recession, it is the youth who gets hurt most. They are often the last to be hired but first to be fired. As they have the lowest skills and experience and their wage level is low, they get lay-offs most often. Then, there are all kinds of different institutional and employment policies that make youth unemployment high. Southeast Asia has the highest unemployment rate, which is mostly driven by Indonesia and the Philippines. What I am most concerned about is how the youth population can successfully make a transition from school to the labor market.

Reporter: What about the situation here in China?

Wei-Jun Jean Yeung : The situation here in China is driven by two groups at different spectrum of education levels. One group consists of the youth who don't have enough education; the other group consists of youth who have a college education.

As you know, the high school enrollment rate is still very low in China: only about half of the youth population here in China attend high school. So there is a large group of youth who have low skill, who don't have enough skills to get employed. They are mostly in rural areas. Some of those are migrant workers who come from rural areas and are living in the city. They are here; many of them don't have a formal job contract. Many of them are working at very low-skilled jobs with low wage or unemployed. Some are employed but underemployed working in temporary jobs with low wage and below their skill levels. So we have to look at not only the unemployment rate; the underemployment is also a big problem.

The other group in China that has unemployment rate is the highly educated college graduates. Since 1999 college expansion, the enrollment or the graduation rate increase from 1 million to now 7.2 million. The oversupply of graduates partly leads to the issue here. Also there is a mismatch for many students in what they learn in school and what the market needs. We find a lot of young population that are highly educated, who has high expectation and high aspiration of what they feel they are entitled to, but they still couldn't find a match in the market. So China actually has two ends of the problem. One is low-income and low-skill, and the other is the highly-educated.

Also, in China, young women's education is already higher than young man these days. However, their occupational status and wages are still lower than young men. This is also a source of wasted human resources. Gender equality is a serious concern in China today. Of course, to make full use of both men and women in the labor force and form family at the same time, other institutional adjustments have to happen. Financial incentives for the couples and quality childcare should be made more accessible to young couple.

Reporter: How about we first discuss the second group of youth, those who are highly educated but without a job? Do you think China has too many

college graduates? Is that partly the reason for the current unemployment we have?

Wei-Jun Jean Yeung: Well, actually the college enrollment rate in China is still quite low by international standard. The gross college enrollment rate is only 25%, much lower than that in Korea (80%-90%), Japan (60%), and the United States (80-90%). Korea actually has the world's highest college enrollment rate now. Korea really has the problem of oversupply of college graduates. That's why they are now trying to shut down some academic schools and build more vocational schools. But that doesn't seem to be the main problem in China. A lot of people argue that China needs more vocational training than academic learning. Actually in China, the increase of professional colleges since the 1999 has been parallel to the increase in academics in fact. Both academic and vocational colleges are important to develop.

Another serious problem is that college tuition is so high now. It keeps most of the low-income population, many in rural area, out of the college gate, creating an increasing divide between the life chances of urban and rural youth.

Reporter: Then what do you think is the main problem of Chinese Universities?

Wei-Jun Jean Yeung: I think maybe the problem lies more with the alignment of the curriculum with the true needs of the market and the lack of guidance (mentorship) to students. Concerning the curriculum, there can be a basic knowledge component and more applied component. What students learn should be in alignment with what the market needs. The educators need to take some time to rethink what the appropriate curriculum should look like.

Mentorship is another important aspect. College students often get lost. They get confused about what courses to take and what industry to get into. Mentorship

within the university would be useful to guide students to ways they can develop. The system should be developed in high school as well, not in a way to determine for the students which way they should go, but to provide guidance and assistance. Every society needs criteria to decide who gets the education; it's inherent in the society itself. But how the criteria are set is important. It doesn't have to be all academic. It doesn't have to be all examinations. So that is why you have to have mentors to guide students through the system.

Also, systems should be made more flexible as well. The switch between liberal arts and science is made too difficult for students here in China. Gap years are not so common here as well. Systems should be made more flexible, and align education, training, and jobs better. The problem here is that you have a huge rural area population who don't have the resources for extracurricular training. So government should put more resources for those students in those areas to develop nonacademic skills in addition to academic skills. Concerning the huge rural population, it is very hard to change that. But the education system needs serious rethinking.

Reporter: So you believe that we can actually figure out exactly what the market needs beforehand so that we can train youth to work in that area?

Wei-Jun Jean Yeung: I believe that it works in both ways. What kind of labor and human resources you have will determine to a large extent what kind of economy you develop into, and vice versa. I am not saying that you can't figure out what kind of economy you will have and train people to have skills needed, but it also works the other way: what kind of people you have determines the kind of economy you have. It works both ways, and it is a balance you have to take a little while to figure out.

Reporter: What about the first group of youth who have low education? What can be done about them?

Wei-Jun Jean Yeung: That's actually what I am most concerned about. In my opinion, what China really needs now, is to solve the bottle neck of high school enrolment. China needs more people to have a high school education. China really does. Because no industry or economy can advance to a higher level with half of the youth population without a high school education. And then smooth out the educational skill level, and revise the curriculums so that they align better with what the economy needs. Not everyone needs an academic degree, so even at junior high and high school levels, they can set up a vocational track. The mindset that vocational schools are not as good as academic schools should also be altered. A good example would be Germany, which has a dual track educational system. They have a lot of opportunities early on for apprenticeship. So in Germany, the youth unemployment rate is very low. That's one model to think about. Another problem in China is that vocational schools are too expensive, sometimes more expensive than academic high schools. So, again, many low-income populations cannot afford it or are not willing to invest in education for longer term benefits of skills.

Reporter: A lot of people here in China (students, parents, even teachers) argue that the education we have is not helpful with future career and suggest that we shouldn't put as much emphasis on education here in schools. What is your opinion?

Wei-Jun Jean Yeung: I understand that there is a lot of cramming in Chinese schools and some educational skill level is too high, for instance, math here is made very difficult. However, though the current education system here in China needs improvement, education in schools constitutes a great proportion of youth education. A lot of the basic skills are taught in schools, such as math, English, writing, understanding how society works, liberal arts training etc. Maybe you don't see it as immediately useful, but I think those basic training are very important. Education of youth is a collective effort and schools are not supposed to

teach you everything. However, some of those that youth learn in school are relevant with their later career. Some argues that you can learn everything while working. Well, you are supposed to relearn because learning is a continuous process. However, schools still partly serve to help youth with the transition of study and work. There is definitely room for improvement, but in schools you learn about knowledge as much about learning how to learn, which is important for any individual's development. Besides, to be successful in a mature labor market, one simply cannot get away without a high school education: When Japan, Korea, and Taiwan were at a developmental level similar to China today, , there was almost 100% high school education attendance in those countries. As I mentioned earlier, high school attendance now becomes a bottle neck for China as more than half of Chinese adolescents cannot afford to or do not wish to attend high school. High school curriculum should be aligned better with market demands. Taiwan and Singapore have a bit more character development component in their school curriculum. Relatively speaking, they pay more attention to sports, art, music, and moral teaching. The whole society pays more attention to liberal arts. A lot of the concepts are not actually inherent in those cultures. They are learned later on from other countries recognizing the potential negative impact of only focusing on academic study on young people. The government has consciously changed policy to incorporate the new concept, such as building art schools, putting more resources in vocational training, requiring different aspect of skills to be trained etc. Definitely some level of policy intervention and coordination is needed. Otherwise the changes will be slow and unproductive. The system is a lot more powerful. It takes time, but it is a change that has to take place.

Reporter: Some scholars argue that most of the unemployment here in China is largely created by Hukou system, as they restrict the flow of labor from rural areas to cities. Do you agree with such a view?

Wei-Jun Jean Yeung: I do believe reform needs to occur as soon as possible - HuKou system restricts the flow of labor and the efficiency of a country to use its

labor market. People's ability to innovate and to move to where their talents are most useful is greatly compromised. Worse yet, the Hukou system even kills the aspiration of rural youth, who don't even see the point of going to high school. Because of the HuKou system, even if they made through high school and college, many cannot find a job or internship opportunities. Schools should try to connect its students to the employment network and give them more opportunities.

The registration function of Hukou is good. All countries have registration systems. However, China's Hukou system is connected to a different access to opportunities and public welfare benefits. A country shouldn't be discriminating against its own citizens from the rural areas. Hopefully Hukou system will be abolished. The fact that college education doesn't guarantee a good job and a successful transition to adulthood for rural youth largely has to do with the Hukou system. Removing the barriers set by Hukou is urgent, and will sure to reduce inequality in the country.

Reporter: What would be your advice to ease the unemployment and underemployment here in China?

Wei-Jun Jean Yeung: Have low-cost high school education for everyone – including both academic and vocational high schools. Right now, high school is made very expensive. Actually, according to the World Bank Study, high school in China is the most expensive in the world, in ratio to the per capita income in China. The high tuition of high school and the opportunity cost of going to high school greatly reduce the number of youth attending high school eventually. China cannot overcome the “middle income trap” with half of its youth without a high school education.

Therefore, make sure all youth have the opportunity to have high school training. Nine year mandatory education is no longer enough when China is set to progress to a new height of development. In Korea, Japan and Taiwan, the mandatory education has long been twelve years when those countries are at the

developmental stage of China today. High school shouldn't be only a three-year preparation for college and academic studies. It means a lot as well for those who are about to enter the job market and accept vocational training. Vocational high schools should be just important to develop as academic high schools.

For college, it's about integration and match of market demands. Research shows very clearly if you have an early unemployment experience, later on your career trajectory will be a lot more fragmented. You will be more likely to have short episodes of employment with unemployment much more frequently, and the wages tend to be much lower. Early unemployment also has negative implications for behavior. The youth that have jobs that provide training and integration of the society, tends to have fewer behavioral problems later on.

Overall, China needs more human capital as its working age population starts to shrink. It will be nice if China could start all-rounded education and training as early as possible, not just focus on academic training, but having better integration of schools and the labor market. What I see as most urgent is to provide free or low-cost high school education for all youth. As for college education, pay more attention to the match between what students learn in school and the needs in the labor markets, and allow a much wider access to the large disadvantaged population in rural areas.

Wu Mingze: Chinese Government Should Decentralize Its Power and Let Market Play a More Influential Role.

Reporter: Xie Guangyu



Wu Mingze

Wu Mingze, a doctor of economics from Taiwan University and post-doctor from the Social Science Center, National Science Council of Taiwan. He serves as a research assistant in Chung-Hua Institution for Economic Research. His research ranges from Chinese mainland's economic reform, financial development to its state-owned enterprises reform. Now, his research focuses on financial issues in Chinese mainland.

Taiwan's development experience shows that it is the foothold of all economic reforms to let the market play a decisive role along with a power decentralization of the government. On this basis, the progress and innovation of technology can be achieved through the improvement of manpower and capital value, thus to drive the productivity improvement in capital field and to realize structural transformation.

Reporter: According to a report titled [Regional Economic Outlook: Asia and](#)

Pacific recently released by IMF, most export-based economies in Asia have shown an increasing dependency on China instead of on Japan since the 1990s. Some foreign media suggest that it is an evidence of the overall improvement of China's economy. What's your opinion about the report?

Wu Mingze: I keep the same idea. According to the theory of gravity, China's mainland, such a large economy, it is inevitable to attract surrounding economies. It is not a surprise that China replaces Japan as the "economy magnet" since China has sustained a high and large-scale economic growth of 30 years in its mainland. Therefore, it is an irresistible trend to rely on China's mainland in terms of import and export business.

Now, the key topic is not about the economic rise in China's mainland but about how to sustain the robust growth. What I always stress is not the data but the benefits that people have gained from the GDP growth.

Reporter: China has seen an economic growth declination in recent years and its GDP growth fell to 7.4% in the first quarter of 2014. What's your idea about the downturn in economic growth?

Wu Mingze: I don't think the figure signals any problem. China's economy has experienced a high growth rate for over 30 years, such a long period that no other economies have ever sustained. For example, after a high growth of over 20 years, Taiwan also experienced a declination. What is really worth considering is the consequence after the rapid growth. In the 1990s, Taiwan was challenged with the serious pollution and imbalance of development between cities and rural areas. Now, China's mainland also encounters these problems.

The rate of the economic growth is merely a figure, not a symbol of the improvement of people's real living standard. We should pay attention to that whether people have gained benefits from China's GDP growth. As for economic

development, what we should seek for is the “best” not the “maximum”. It may result in neglecting progress in other areas by pursuing solely economic indicators.

Reporter: What’s the main reason do you think for the economic declination in recent years, cyclical factors or structural factors?

Wu Mingze: Cyclical factors played a major role during financial crisis in 2008. While, after a government stimulus of 4 trillion RMB, it has experienced a period of excess production capacity and local debt crisis. Thus, structural factors have become the main reason after 2008. As the stimulus was focused on state-owned enterprises (SOEs), almost all enterprises with an excess production capacity are state-owned. Here we can see the low efficiency of resource allocation controlled by the government.

Reporter: As we talked about SOEs, last year, there were two different views of “SOEs are shrinking while private enterprises are expanding” or the other way around under the policy of invigorating large enterprises while relaxing control over small ones. How do you think about it?

Wu Mingze: Statistics showed an expanding role of private business. But after my research, I found that SOEs are expanding. From the perspective of industry relevance, the high industry relevance represents the strong influence and control in this field. The small companies are those with low industry relevance while the large SOEs are key industries with high industry relevance. From this aspect, SOEs are increasingly concentrating on some areas. Therefore the whole picture is that SOEs are expanding while private companies are shrinking in some areas under the policy.

Reporter: China still faces problems such as the excess production capacity in infrastructural industries and the overall structural imbalance caused by homogenous investment from government and vicious competition. It became

knottier under the trend of local “Land Finance”, what do you think of this phenomenon?

Wu Mingze: It is an outcome of government-leading investment: high investment but low efficiency. For local governments, the fastest way to improve their GDP is to invest in infrastructure, which results in a high GDP along with local debt crisis. Thus the vicious circle starts: local governments continue to invest in infrastructure with more loans, loans piling up and excess capacity undergoing.

The biggest problem in China’s mainland is the predominant role of the government in all areas. The industrial economy cannot shape its scale without industrial integration.

The restructuring of China’s economy shall not be conducted by the government. For example, in Taiwan’s process of industrial upgrading, the government only serves to offer a platform, establishing technological legal person to help enterprises on their R&D. China’s domestic enterprises have independent R&D capacities and it is not necessary for the government to lead the R&D direction. Another key issue is to formulate technical standards to improve efficiency and promote scaled economy. China has a giant domestic market with a population of over 1.3 billion and it is capable to work out technical standards. Only by completing this, can it be the leader of the future international economy.

Reporter: China’s imbalance of economic structure has been the consensus of today’s discussion. Some scholar states that behind the structural imbalance is the serious income imbalance. What’s your view on it?

Wu Mingze: From my point of view, the imbalance shows in many respects. China has a high level of marketization in its products but not in its market factors. The household registration system has its necessity in the overall social administration but its impact on economy shall be greatly reduced, such as the differences in

salaries and social benefits.

The urbanization process in China's mainland is led by the government not by natural evolution, resulting in a mismatch between resources investment and demand. The ultimate solution is the market and the government shall give less administrative intervention in the urban and rural planning. It may experience a period of adaption during its decentralization process but shall be confident.

Reporter: As for the demographic factor, there is a debate over China's demographic dividend: some people argue that China has reached the "Lewis turning point", while others believe that labor surplus is a general condition but some areas still face labor shortage. What's your point of view?

Wu Mingze: I don't think it is very important that whether China reaches the Lewis turning point or not. We can't rely on less-skilled labors all the time. Due to the improvement of rural welfare, northern areas may suffer labor shortage if the structural adjustment is not achieved. Therefore, I don't think the end of the demographic dividend means anything bad. What it matters is to achieve the industrial upgradation and transformation

Reporter: In an article about the shadow banking published by Economist on May 10, it said that there were risks in China's shadow banking system, but the system could still play a role if under proper supervision. Do you agree with it?

Wu Mingze: The shadow banking is a type of financial innovation, a capital loan method deriving from the supervision reality on finance. Provided the supervision system works well, no big problem will occur. The biggest problem of China's domestic financial system is that the bank system bears all the risks, which may result in excessive risks.

Taiwan government has released its interest rate control in the early time. There are less risks in Taiwan's bond market and the stock market is mostly composed of private investors and funds from organizations, which share the risk on banks. In order to achieve an improvement, the ratio of direct financing shall be improved and the transaction among banks shall be standardized. The situation of too many "baskets" are placed in the inter-bank trade market shall be avoided. The online trade is also a way to improve the ratio of direct financing. The asset securitization in the bond market also serves to reduce the proportion of indirect financing.

Reporter: In 2014, under the policy that the government shall decentralize its power and let the market play the decisive role, Shanghai Free Trade Zone (SFTZ) serves as a test field for China's economy. What do you think of this attempt?

Wu Mingze: The policy shows a good direction but it seems to turn back in its actual implementation. For example, recently, it has been tightened up in terms of the IPU system of the stock issuance (shifting from the examination and approval system to a registration system). It seems not easy to complete the shift to registration system in Mainland this year. SFTZ is a good attempt and until now, it develops well. I hope it sustains its good momentum.

Reporter: This year's focus is Asia Transforms: Identifying New Dynamics. What are the fundamental new dynamics do you think?

Wu Mingze: It mostly relies on the improvement of human capital: the improvement in labor productivity and its added value. With the demographic bonus being out of date, the issue of how to improve the productivity shall be attached with more attention. As to the issue of capital, what China lack is not capital but the method to use it efficiently. In order to achieve better capital allocation, China shall eliminate monopoly and let the private enterprises compete fairly with SOEs in employees' wages, labor force, usage cost of lands, interest rate

and financing cost. In a word, the fundamental solution is: the government shall decentralize its power and let the market play a more influential role.

Xie Yonghai: Competence with Global Giants Helps Keep in Line with International Practice

Reporters: Xiang Huilian, Lu Xiaoyue, Wang Weiliang



Xie Yonghai

Xie Yonghai, graduated from Fudan University, President of BOCI-Prudential Asset Management Co., Ltd., member of the 12th Shanghai Committee of CPPCC and the Advisory Committee of Shenzhen Qianhai Modern Service Industry Cooperation Zone Advisory Committee.

It is urgent for China to foster some large investment banks and develop hedge funds. Only by competing with global giants can China be in line with international practice, and therefore must be ready to confront with foreign capital instantly when it is open to them.

Reporter: Now, Shanghai Free Trade Zone has become the focus of concerns as new regulations and policies are issued but there are not many tax preferences. What is your view on it?

Xie Yonghai: The lack of tax preferences actually shows the confidence of China. Since China's reform and opening up in 1978, foreign-funded enterprises investing in special economic zone enjoyed the tax preferences of duty free in the first two

years and half in the next three years and this favorable terms lasted for long until China joined WTO, immediately after which tax rate of foreign enterprises was much lower than that of Chinese-invested enterprises. It was not until seven years ago that they had the same tax rate. Since Chinese economy has reached a certain scale and China believes it can attract foreign investment without tax preference, China does not introduce tax preferences in the free trade zone.

Reporter: Then what do you think foreign investors favor in the free trade zone and what is the core that attracts foreign businessmen?

Xie Yonghai: Open policy of the free trade zone. They can invest in everything, which is not possible in other regions of China mainland. Another thing is convenience. In the past, you have to deal with various departments, solicit help and give meals and gifts to open a company, but now there is no need anymore, also good for the operation of the entire government. In the future, there will be a negative list for the government, specializing dos and don'ts. Therefore, the negative list will not only apply to investment, but also to administration aspects.

Reporter: In addition to the free trade zone, another focus of China's opening up is Qianhai development zone. How do you see the competition between them?

Xie Yonghai: Qianhai development zone is different from free trade zone in that it is a Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, an experimental model zone of financial sector opening. They have different positions. Qianhai has many financial experiment, while some financial services in Shanghai Free Trade Zone are only about settlement, investment and so on and free from the responsibilities of all-round opening up and experiment. Mayor Yang Xiong puts it clear that the financial trial in the free trade zone was confined to policies related to real economy, trade, etc rather than a pure financial trial, because it would be cloned to the entire country in the future. Qianhai, on the other hand, can have

financial trials as it is a blank sheet that will have no loss if it fails and good if succeeds. Shanghai has large financial risks as it is an international financial center and will be in big trouble if it comes into financial problems and therefore a top-level design, preparedness plan and careful sequence of moves are needed.

Reporter: What are the financial risks in the opening up process currently?

Xie Yonghai: Firstly, a hasty opening up before China is fully prepared. Japan was not fully prepared when it opened up, opening its capital market before they had established the entire market operation of their commercial banks. China should not follow it blindly. We will open up step by step, but we will not hastily set a schedule of opening up. The opening of capital market should be depend on whether domestic economic structure has been adjusted to a good state now when actually it is not in good state with real estate and stock market susceptible to speculation.

Secondly, poor supervision and unprepared investment bank. Chinese commercial banks are in possession of 150 trillion RMB capital while securities companies 1.5 trillion, dwarfed by giant commercial banks. 90% of financing of banks is lending while very few financing comes from capital market, which is why we appeal to establishing multilevel capital market, diluting bank loans and increasing direct financing. Direct financing will render interest rate objective, marketize interest rate and put forward whole market operation of the market economy.

Without the establishment of this system, our economy will be struck after opening up and these problems are susceptible to foreign hot money. Our securities companies are small and less capable while American investment bank giants speculate in stocks, securities, derivatives, financial market, real estate with many hedge funds and capacity of exchange rate speculation (English pound crisis and Asia financial crisis are related with it). It is urgent for China to form some large investment banks and develop hedge funds. Only by competing with global giants

can China be in line with international practice. We should not be tamed to be little sheep by the general headquarters of People's Bank of China, China Securities Regulatory Commission, China Insurance Regulatory Commission, China Banking Regulatory Commission, but be ready to confront with foreign investment after opening capital market.

Thirdly, some real estate loans and bank capital prices involved in financial loans are very important. Whatever it is real estate or its related products, including steel-marking and so on whose supply exceeds demands and needs readjusting, they will not be opened until they have been properly adjusted.

Reporter: You have mentioned establishing big investment bank. What are the obstacles to the achievement of this goal?

Xie Yonghai: This is linked to divided operation. After the Great Depression, America formulated Glass-Steagall Act which mandated divided operation management because the prior mixed operation had caused financial crisis. However, after 1960s, they found that divided operation did not work well, so during Clinton years this act was discarded and the popular belief was that mixed operation could work by establishing financial holding companies, with subbranch of securities companies, insurance companies and banks, etc.

Companies need loans, listing and issuing debts. In mixed operation, a bank can provide them with integrated service. It applies to customers as well who have the need to buy stocks, securities, insurances and funds while in the past they did nothing but take their interest by depositing money in banks.

We are now still at the stage of divided operation which is very safe but difficult to expand and our securities companies are running constantly in small scale. Since the establishment of the first securities company in China mainland in 1990, although banking assets have multiplied some times, securities companies could

not because they separated from banks. Things will be quite different if banks can also run securities companies, as they have much more customers. Some people say that Securities Regulatory Commission will worry that if banks run securities companies, they will undercut other securities companies. However, I believe that securities companies run by banks will still be under supervision by Securities Regulatory Commission and thus more companies will be supervised and securities companies will be more powerful. Financial institutions should be each holdings which facilitates their expansions, or they will not have enough capitals.

150 trillion RMB bank assets, 8 trillion RMB insurance companies assets and 1500 billion RMB securities companies assets. This structure is far from perfect and we need balanced development. In addition, we should develop credit rate companies and enable RMB to have more settlement and investment functions. With domestic matters handled well, we can open financial sectors.

Reporter: Let's talk about top-level design. What kind of supervision institution do we need?

Xie Yonghai: Finance is complicated and there must be top-level design, without which any financial reform will be dangerous. For example, who will monitor internet finance after they appear? The average people only pay attention to the interest rates with no regard to what is behind the real products. The logic behind is that insurance products is under regulation of Insurances Regulatory Commission, funding products, trust products Securities Regulatory Commission, intensive deposit Banking Regulatory Commission, interest rate People's Bank of China.

Who regulate them? There must be a super financial regulatory institution. In China, it is still the separated institutions and out of date in the world. The appearances of internet finance and shadow banks are all about this problem. Without the regulation of a super institution, shadow banks and commercial banks are both in mixed operation and they are exactly carrying out mixed operation with

circumvention.

The moment is ripe for the introduction of the super supervision. We can supervise companies in divided operation, but there must be a super supervision institute with the subordinate branches being managed separately, much easier when they belong to the same system. When they belong to different institutions, they have contradiction with each other and that is a big trouble.

Yang Yiyong: China's Urbanization Should Respect Human Rights

Reporter: Xu Qianyu, Cheng Tonghui, Shi Xiaolei



Yang Yiyong

Yang Yiyong is the director of the Research Institute for Social Development of the National Development and Reform Commission, researcher, doctoral supervisor and an expert enjoying the special government allowance. He was rated as the young and middle-aged expert who made outstanding contributions to China, and was selected as a national candidate for Talents Project. At present, Mr. Yang is mainly engaged in policy studies on macro economy, social development, social organization, social management, social policy, population and employment, human resources management and development, social security, staff welfare, engineering consultation, etc.

What really is a good city? It is impractical for us to build up an international or global city, what the Chinese people really requested is simply a city with an appropriate population and a comfortable living environment.

Reporter: What's your view on the urbanization pattern in China? If the simple pattern of industrial-cluster-driven urbanization is not sustainable, what would be the more desirable pattern?

Yang Yiyong: Instead of being determined by individual or the governmental will, urbanization pattern in China is co-determined by the market, people, and its government. If a policy concerned with urbanization is available at present, we should first focus on the response of the main body of the market and the common people. Only by taking all of the above factors into account, can the next policy be formulated. I hope urbanization in China is finally a fairer one, which respects human's equal rights. We can promote the urbanization of the whole city via industrialization and attach more importance to the tertiary industry and the service industry.

Reporter: Shanghai's new planning for urbanization proposes to break the conventional pattern that was dominated by industrial development. How do you think of this proposal? Are there any other districts in China at present can follow Shanghai's mode of urbanization to promote their own urbanization?

Yang Yiyong: This line of thinking is correct. Previously, China's economy is largely a kind of "labor economy", which relies heavily on physical work. However, it is developing towards a higher level, thus the way of earning money calls for a change: to improve its technology and accelerate its transition.

Developed areas in China can adopt this way to achieve their urbanization. Shanghai arouses the development of its surrounding areas through service trade, and makes money via knowledge and mental work. Urbanization in Shanghai is similar to the so-called "wisdom economy" in the United States, which pushes forward its economic development through idea, concept, technology and innovation. Since this kind of wisdom economy holds a leading position in many areas, we are required to strive towards this direction continuously.

Reporter: It has been mentioned in the forum that urbanization is a matching

between population and economy cluster, what is your view on this? The urbanization in Detroit has experienced a stagnant period due to the extinction of economic resources, so do many cities in China. Is it an inevitable process in urbanization? Do you have any suggestions about that?

Yang Yiyong: As far as I am concerned, the marching between population and economy cluster is a kind of “industry-city convergence”, which is the inter-convergence between industrial and city layout. It is impossible for a city to develop without the promotion of the industry, and the secondary industry has played its role in traditional structure. However, since the secondary industry is becoming inactive, service industry is hence in demand. If we compare industry as the skin of the new-type urbanization, then population is the fur of the urbanization, and “the fur could no longer exist without the protection of the skin”. As a result, a city must attract more people through its industry: to provide them with more job opportunities to improve their income and living conditions, and its urbanization will be promoted naturally.

There did appear some problems in the old city Detroit: land price increased, workers went on strikes and the social environment became at the later period of the urbanization. Therefore, most of the upgraded industries moved to other areas outside the old city. Most of the old cities in China, such as resource-exhausted cities in northeast China, shall learn from Detroit. There are currently about 69 cities which are defined as resource-exhausted cities and are in face of being upgraded and transformed. With the consumption of the resources, urbanization is bound to slow down its pace. As a result, it calls for us to look for other resources and industries to replace the original ones and develop the tertiary industry. We need to plan ahead, for Chinese urbanization sometimes does not take a long-term view. What we need to do is to think of the transition and upgrading of the subsequent industries when consuming resources.

Reporter: What's your view on the statement that the new-type urbanization

is the urbanization of human rights and is a half-urbanization as well? What can we do to make it come true?

Yang Yiyong: The main problems of the half-urbanization are migrant workers and outsiders. What the Chinese urbanization in need of is the labor, but not people. Native people and outsiders differ in their welfare and income, and outsiders and migrant workers even could not enjoy some intangible rights. Migrant workers mainly enjoy their economic rights but are in lack of their cultural and social rights, let alone their political rights which belongs to their domicile places. Assume that the outsiders take up 40 percent of the population in a city, the corresponding NPC representatives ought to take up 40 percent. However, the fact is that there are only several who represent the outsiders in the city. Thus, public policies and welfare are more inclined to the native people, and this is the key problem.

There are many ways to solve this problem. For example, the composition of the NPC representatives shall reflect the structure of the permanent residents of a city. Under normal circumstances, all permanent residence in a city shall have the right to vote and stand for election, since performing right personally is most reliable. The core of urbanization is that a person in a city shall be a whole one. Human rights can be divided into economic, political, cultural and social rights, and they ought to be an organic whole. Economic rights aim to better respect and protect human's economic rights: not only to increase their wealth and welfare, but also to protect the other rights through realizing their economic rights.

Reporter: There are several contradictions in the process of Chinese urbanization and which do you think are the most in need to be solved?

Yang Yiyong: The most urgent problem currently is the contraction between people. For example, everyone in the city is called for making a contribution to alleviate the situation of hazy weather in Beijing, and they are encouraged to drive less. Only everyone is willing to protect the environment and construct their city

from the bottom of his heart, can the problem be solved fundamentally. However, the problem is not that easy to solve, for various conflictions are easily to generate, such as contractions between people who owns a car and those who do not, contractions between families who own one car and those who own two, etc. People hold different attitudes towards this problem.

Reporter: With respect to the situation of “many cities with the same style”, what should we do to avoid or improve this situation?

Yang Yiyong: The situation of “many cities with the same style” refers to the too-fast and low-cost urbanization process. The designs of all cities are almost the same and redesign is of course unnecessary. If we want to make each city differ, we need to slow down our speed and pay more attention to the design. However, it's now almost impossible to change this phenomenon radically on the built-up cities. Only minor changes can be done to some small places to make the city unique as much as possible.

Reporter: Chinese Ministry of Finance will raise the fund for urbanization in the PPP mode, what do you think of it? What is the principle source of the funding?

Yang Yiyong: Public-private partnership is a new pattern for raising fund. In the past, urbanization relies mostly on the financial support and subsidy of the government. However, the public-private pattern changed this situation, which means that enterprises invest to construct and contribute to the urbanization. If common people are willing to help, we can raise fund from them and solve the problem through financing.

Reporter: what's your view on the relationship between the government and the market in the process of urbanization?

Yang Yiyong: In my point of view, the market plays a more important role. During the last several decades, Chinese urbanization relied largely on the government. However, just like we have mentioned about the PPP mode above, the current trend is that it should not simply count on the government alone. Chinese urbanization should be regulated through financial market, and the role of the market should be increased. We should raise funds through other approaches instead of just relying on the government. As a result, the urbanization will be enlivened.

Reporter: Since you have mentioned “city system” in this lecture, would you please explain how to control the relationship between cities, and the relationship between cities and regions, as well as how to control the flowing of materials, population and information?

Yang Yiyong: Let’s take Beijing as an example. Like all cities in the past, Beijing is heading for a comprehensive one. But as the political and cultural center of China at present, it is not a must for it to become the economic center. Enterprises in Beijing can be migrated to other cities, so as to evacuate its functions and relieve its burden and avoid the slow-development of its surrounding cities. Therefore, it is a necessity for us to build a harmonious and co-development relationship between the core city and its satellite cities.

We need to propose a concept of a comfortable city. What is a real good city? It is impractical for us to build up an international or global city, what the Chinese people really urged is simply a city with an appropriate population and a comfortable living environment. We should put people first, and an index of the accommodation capacity of each city is indispensable.

Zhang Chewei: The Core of Urbanization is Matching Convergence of Population with That of Economy

Reporter: Wang Zhenyu



Zhang Chewei

Zhang Chewei is the deputy director, researcher and a doctoral supervisor of Institute of Population and Labor Economics. He is also the director of Labor and Social Security Research Center, the dean of graduate school, Population and Chinese Academy of Social Sciences. He is a well-known scholar, subsidized by the State Council and selected

into 'New Century Talents Project' on national level.

A city is defined as a place to gather population and economy, and urbanization serves as the very process to gather those two. The core of a new round of urbanization is to match the convergence of population with that of economy.

Reporter: What do you think the main problems of the past urbanization in China are? Is there any valuable experience?

Zhang Chewei: There are three main problems exposed to us in the past urbanization. First, pattern of motivating urbanization with industrial cluster is hard

to continue. In the past, industrial enterprises usually led to the rise of towns, the scale of which were enlarged due to industrial parks. However, the pattern is taking a huge toll while the motivation of industry is on its way diminishing. Second, the process of urbanologist is half completed owing to urbanologist problems of “population” . External population has no right to enjoy basic public services, which results in unbalanced allocation of public products. And insufficient attention is paid to ecological environment and residence function during urban planning. All those dissatisfy the masses and go against the original intention of economical development and motivation of urbanization. Third, urbanization pattern of relying on land finance gives rise to lots of problems. In the past, fund for infrastructure construction was attained primarily from local distribution and transfer of land. However, disadvantages of this pattern, such as distorted industrial development, intensifying conflicts about land acquisition, and frequent lease-seeking, are gradually disclosed. The new round of urbanization cannot follow the old routine of urban expansion.

And there are two lessons we can learn from the past urbanization. First, the pattern of urbanization in China motivates convergence of population through that of industrial economic activities. In other words, economy of scale is formed via industrialization and organization of economic activities, due to which convergence of population tallies with industrial convergence. And this very law of urbanization is what we should follow in the future. Second, priority development of infrastructure, adopted as a pattern of urban expansion, lays a foundation for living function and service function, and provides favorable dwelling environment for population entering towns. The above-mentioned pattern is worthwhile to be confirmed.

Reporter: What do you think is the core of new round of urbanization?

Zhang Chewei: The core of new round of urbanization is to match the convergence of population with that of economy. Without matching, the

urbanization is incomplete. Town is defined as a place to gather population and economy. And urbanization serves as the very process to gather those two. If matching fails, for example, when population is gathered but economy is not, there will be a large number of the unemployed. Problems triggered by mismatching defy countermeasures.

Reporter: There are a lot of traditional industrial cities confronting urban transformation around the world. Which lessons do you think it can provide for urban development in China?

Zhang Chewei: A well-known international example is the bankruptcy of Detroit. As a traditional industrial center in America, Detroit had its problems in considering no circumstances of declining when on its heyday, that is, no consideration of consequences about what mono-industry could bring to a city. That's why its declining is inevitable when advantages of its automobile industry were lost and no other transformation was available. Upgrade and transformation confronts every city in its development. Mono-industry is not sustainable. What a city need is to upgrade and transform itself with the development of economy. If the process fails, it is bound to fall into disuse. For China, many industrial cities rely too much on manufacturing industry, the superiority of which are on its way declining. Therefore, those cities are faced with problems, such as how to continue its development? To which direction should it transfer? All those should be put into thought beforehand.

Reporter: Where do you think the urbanization of industrial structure upgrade should move forward?

Zhang Chewei: I think, it is the market rather than the government that should lead the process of transformation. Government know nothing about the direction but enterprises do, because they are direct involvers in economic activities. As the most sensitive to change of economy, they know where to make more money.

Transformation, in fact, means to transfer to a more lucrative direction. Why manufacturing industry need transformation? No advantage any more, no way of making more money and declining competitive force. All those are clear to main market players, and they are enterprises.

Government should provide support in policies as encouragement for enterprises. For example, for some new profiting industries, they need a large sum of investment in their initial stages, but find it difficult in raising fund by themselves. And government should stand out to give them support, due to which they can shoulder the responsibility of transformation.

Relation between government and enterprises should be well-tackled. That means, government can not give excessive intervention in enterprises. Special attention needs to be paid in China. Compared with developed countries, our government interferes too much. Certainly, over-marketized measures in some countries also exert problems, which I also disapprove of. But what I am sure is that excessive government intervention is definitely wrong.

Reporter: According to you, how to achieve common development among first-tier, second-tier and third-tier cities?

Zhang Chewei: With highly-concentrated population and economy, first-tier cities are now in the stage of industrial structure upgrade and convergence of high-end population. For them, key industries should go to productive service industry, high-end service industry and innovative industry. Those three words refer to scientific research, insurance, finance and industry research and development, etc. It's the only choice for first-tier cities since they have lost their comparative priority in industry. Their advantages lie in providing innovative service for production, such as scientific research, IT, product designing. Once industrial position is clearly settled in those cities, government should encourage corresponding talents to work in here.

For second-tier, third-tier and fourth-tier cities, latter two in particular, are in the stage of under-population and economic insufficiency. Therefore, appropriate economic activities should be found to motivate the convergence of population. As a whole, economy does not converge enough on mid-western area while population does so on eastern area where economy has highly converged. As a result, a large quantity of population floods from mid-western to eastern area. Although proportion of urbanization has been very high in China, there still exists problem of under-population according to current situation of mismatching. Therefore, mid-western area with advantage of labor resources can be motivated through industrial transfer to resolve the problem of economy insufficiency. Industry and manufacture should be their key as before. From my point of view, it's wrong to think that industrialization in China has been finished and no more industry is needed.

Reporter: You once mentioned in your paper, whether labor shortage will be a trouble in China or not depends on speed of urbanization and quality improvement of labor. According to current circumstances, how fast the urbanization do you think is bearable for China?

Zhang Chewei: I think the current speed is acceptable. According to the Bureau of Statistics, the urbanization grows at a rate of over 1 percent per year in China, the speed of which keeps up with that of Japan in its process of its urbanization. From the perspective of gross population, China has a large population. Though our working-age population has stopped increasing, a large amount of rural surplus population flows into cities during process of the urbanization. Therefore, I don't worry shortage of labor supply. With appropriate government policies, sufficient investment in human resources, good education and command of skills for labor forces, no problem will be with the urbanization. However, if labors entering towns are low in quality, which does not meet the need of urban development, those labors can never become motivators. That's why improvement of labor capital is

vital to urbanization. Without it, it's impossible for urbanization in China to grow sound and safe. The process of the urbanization is far from its end. As long as transformation of rural labors is finished, to keep a rapid development of urbanization should be no problem. And the transformed labors will in the long term become motivation of economic growth in China.

Nakagane Katuji : Economy in China and Japan

Reporter: Duan Yige



Nakagane Katuji

Nakagane Katuji is a well-known expert on Chinese economy as well as an honorary professor in Tokyo University. As an overseas scholar, he started his research on economic problems of China at an early stage,, which covers period of planned economy and period of reform and opening-up. He has profound researches on relation between industry and agriculture, the Chinese Model and relation

between Chinese economy and Japanese economy.

Despite the difference of national conditions, it's inevitable to absorb lessons and experience from developed countries during the process of Chinese economic development. As an adjoining neighbor, Japan, whose economy has soared after war, can set a significant example for China.

Reporter: Before discussing Japanese experience, let's review the "Chinese Model Theory". It seems that arguments about whether it exists or not have already disappeared. Why?

Nakagane Katuji: In my view, "Chinese Model Theory" has been out-of-date. In recent years, Chinese model has been replaced by middle-income trap, or the latest "Transformation Trap", a concept developed by Sun Liping of Tsinghua University.

About this question, Professor Ding Xueliang of Hongkong Technology University once wrote a book criticizing “Chinese Model Theory”. He regards that there is no fixed concept about Chinese model, which actually changes to the times.

I do think only two points can be regarded as “Chinese characteristics”. One is centralized political system. It’s because government can pool resources to solve major problems that Chinese economy experience such a rapid growth. The other is gradualism, which means moving steadily. But for most urgent problems now —— income gap, environmental pollution, corruption and political system reform, etc., it’s useless to discuss “Chinese Model”. That’s why I think “Chinese Model” is out-of-date.

Reporter: As to problems you mentioned just now, Japan also had the same experience. In recent years, last year in particular, the most impressive problem is environmental pollution. China once put forward the idea of not following what developed countries has walked through. However, it seems that we haven’t blazed a new trail on that. Do you think that “treatment after pollution” is a must in the process of industrialization?

Nakagane Katuji: Many years ago, developing countries clashed with developed countries over environmental protection responsibility in some international conferences. According to developing countries, “Since you have already polluted the environment, we have the right to do the same.” If we follow this logic, “treatment after pollution” can be regarded as necessity. But I think there is something wrong with the view, which is more likely to be an excuse. No fundamental conflict exists between economic development and environmental governance. It’s possible to have both of them. Although so-called environmental “kuznets curve” does exist, many researches indicate that its radians can be pressed down through operable measures. We have no way of making no pollution, but losses of pollution can be reduced to its greatest extent.

Reporter: It's feasible in theory, but no successful example is available till now.

Nakagane Katuji: It's something about technology. Developing countries may have no money introducing technology for environmental governance. People who are not that rich usually take little care of economical development. But we need to be optimistic to have the problem solved. China may have already on its peak and is going to fall down.

Japan was facing serious environmental problems then. In 1960s, Japanese environmental problem, called as public hazard, was very very serious. Ways of solving it included mass movement and media report. First, as for a large scale of mass movement, it is similar both in Japan and China. For example, construction of chemical plant is opposed by some local environmentalists. Second, media report is very effective. Exposure of events can motivate the nation and government in taking new actions to govern pollution and upgrade industries. Therefore, I think there is great possibility for China to learn this from Japan.

Reporter: Which one do you think is more seriously polluted, the past Japan or current China?

Nakagane Katuji: I took my job in 1964 after leaving college. And I feel that air pollution in Japan then was less serious than that in Shanghai and Beijing now.

Reporter: How should we understand industrial upgrade driven by government?

Nakagane Katuji: There are two kinds of industrial upgrade. One is generated by market. For example, people had been living mainly on grain before income was raised. After pay raise, they prefer more meat and senior food. With the improvement of income level, industrial structure is also changing, which

constitutes a natural market process. The other is generated by government policies. Government is inclined to develop or introduce a certain industry. And industrial upgrade is combination of above-mentioned two elements.

What I'm worrying about is, GDP incentive mechanism in China may prevent the upgrade from secondary industry to tertiary industry. Local governments will try their utmost to invest those "large" and "quick" industries or develop land for the purpose of comparison of GDP. However, those industries tend to be traditional industrial manufacturing industry rather than modern service industry. What's worse, it will result in the lack of structural diversity in local government investment. For instance, province A focuses on automobile while province B does the same. However, automobiles produced are over market demand, and no one will invest agriculture, logistics and public service, etc.

Reporter: Let's talk about education. Recently, China proposes that we will vigorously develop vocational education and higher education will give priority to vocational education in the future. It helps adjust structural imbalance of labor forces in current China and solve problems of undergraduates' employment difficulty and technicians shortage. How do you think of it?

Nakagane Katuji: Actually, I don't really agree to place vocational education into higher education. So-called vocational education should include both secondary education and higher education. In Japan, when entering technical or business high schools after graduating from junior or senior high schools, students start their vocational education. If they enter universities or research institutes, focusing on R&D, legal support, economic management, what they receive is higher education. These two are totally different. Vocational education is for application while higher education is for culture cultivation and development of more advanced knowledge. Besides, enterprises also serve as force of vocational education because the education caters to enterprises and production. Therefore, we can have enterprises

shoulder this responsibility.

Then let's come to higher education. In the past, we called university as "Tower of Ivory", which means that university is an independent kingdom, whose goal is not to combine career with industry. But in Japan, it is not same as before. Research outcomes in universities can promote development of enterprises, which, in return, drive universities to prosperity.

Reporter: However, some argue that it conflicts with China's trend of developing modern service industry in the future, which goes against industrial advancement. Do you think the worry is necessary?

Nakagane Katuji: It's evitable. Vocational education should focus on secondary education, but secondary education is for cultivating skilled workers while higher education is for cultivating professional managers, such as medical personnel and financial talents.

Reporter: Does that mean secondary and higher vocational education coexist in the future?

Nakagane Katuji: Yes.

Reporter: Let's discuss one last question: agriculture. In recent years, China has increased grain subsidy of peasants. As we know, Japan also provides high agriculture subsidy. To China and Japan, do you think agricultural development through subsidy is a good and sustainable choice?

Nakagane Katuji: In my personal view, it's temporarily needed. However, long-term policy like this is unfavorable to development of farmers, which is similar to a long-term protection for a child. Agriculture should be gradually open to market.

Reporter: Some think that subsidy in Japan is to protect domestic high-priced agricultural products while subsidy in China is to encourage peasants to till the land because they earn less from it than from working outside. The former is for “enriching peasants” while the latter is for “impoverishing peasants”. Why is that?

Nakagane Katuji: It’s resulted from Chinese-specific urban-rural dualistic division system, which does not exist in Japan. Japanese economy is a typical Louis economy. 1960s was a turning point in Japanese economy. Before that, rural labor forces were rich and they went into cities and factories. At the end of 1960s and the beginning of 1970s when transfer of labor forces was almost done, urban-rural gap naturally disappeared. Now peasant’s income, including that of working outside and tilling the land, is higher than that of urban citizens. In Japan, this phenomenon is called combined occupations for peasants, who not only rely on tilling the land. Those who work full-time on land are scarce in today’s Japan. Besides, with the development of agricultural technology, per capita capital for agricultural population rises and correspondingly per capita income also rises. Meanwhile, development of automated machine enables many old people to work on fields. China can learn this from Japan because both of them develop agriculture based on intensive cultivation.

Zhou Qiren: Urbanization Should Not Come at the Cost of Free Market

Reporter: Xue Jiao



Zhou Qiren

Zhou Qiren, a professor of China Center for Economic Research in Peking University, economics professor of CKGSB (Cheung Kong Graduate School of Business), and professor of National School of Development in Peking University. He mainly studies on property rights and contract, institutional changes, regulation and regulation reform.

This administration pays much attention to both urbanization and administration mechanism reform. If we aim to achieve a healthy urbanization through reforming the system and mechanism, then we would have confidence in urbanization.

Reporter: It can be predicted from many of your paper that you are optimistic about the economic potential of Chinese urbanization. Would you please make a comment on the urbanization that has been achieved by this new administration?

Zhou Qiren: Currently, Chinese industrialization is developing at a very high level while urbanization is in a relatively low level. Thus, China has great potential to

further achieve urbanization. However, it will depend on whether the mode of “governed by administrative scale” would be changed, for population mobility and resources clustering can not be accomplished by administration. The current problem is that our current administrative framework is inconsistent with the process of finding the best place for people and projects to stay and searching for a place to produce the best cluster effect. With this problem unsolved, the quality of urbanization will be very poor and some areas will be in need of labor while some will in severe need of investment. This administration pays much attention to both urbanization and administration mechanism reform. If we aim to achieve a healthy urbanization through reforming the system and mechanism, then we would have confidence in urbanization.

Reporter: In the process of Chinese urbanization, you speak highly of the experience in Chengdu Province. Meanwhile, you said that this experience is not applicable to small and medium-sized cities although it fits big cities well. So do you have any suggestions for the urbanization of small and medium-sized cities?

Zhou Qiren: Some cities should reduce their strong administrative intervention on the construction, and allow urbanization to develop towards its trend. There is no need for every city to build a so-called center even though they meet the classification of a city level. A small and middle-sized city may not achieve urbanization in the way like big cities, but it can do meaningful things, such as preserving the environment and resources, and perfecting various small clusters. Do not believe that any investment can build a city into an industrial and business center, this is an impractical thinking.

Although in lack of mountainous floating population to construct the city, many small and middle-sized cities can still do lots of things. Take, an example, they can protect the environment while developing agriculture services; they can build a comfortable living environment, etc. The main problem of administrative

management lies in the uniform pace of urbanization. All the cities develop at the same pace in a similar way. Actually, we need to proceed from practical circumstances and reduce improper administrative intervention. The government should not use its power to govern compulsorily, for it will be counterproductive. In the last several years, the government has made many plans from the top down, only to find that most of them were not achieved. Administration in small and middle-sized cities should learn from this failure and should not impose their administrative power casually. An impractical urbanization will waste a lot of resources and lose more than gain. Therefore, urbanization should be practical.

Reporter: So how should the government define its role in the process of urbanization?

Zhou Qiren: Government should firstly uses its authority to protect people's basic rights, such as migration right, property right, transfer right, entrepreneurship right, and so on. Without forceful protection of the government, civil and contractual disputes will not be processed timely, and the cost of all parties will be very high. As a result, there will be no reliable basis for the growing of economy and the urbanization. However, centralized authority shall not be used to decide the scale and the lifestyle of a city, for the development of a city is like the growth of any organism which is featured by a complex spontaneous interaction. So the government is not suggested to use its power and authority casually and mistakenly. We call for the government to protect the property of citizens and enterprises, to protect the freedom of the contract and to maintain the fundamental economic order, especially the fair trade. But it is the market's responsibility to allocate resources. The government is required to provide institutional foundation for the establishment and operation of the market. However, it should neither replace the market to allocate recourses and change the form of allocation, nor decide directly where people and industry should cluster.

Reporter: Urbanization in China is closely connected with the land reform.

You have stated earlier that “the land can not be separated with the reform. No reform, no healthy urbanization. Only when reform plays the leading role in urbanization, can we trace a healthy way of urbanization.” Does it mean that land reform should be prior to urbanization?

Zhou Qiren: In many places, local governments use farmer’s land all at once to build “cities”. Of course, this behavior is impracticable. Instead, in the process of urbanization, government should reduce to expropriate step by step, allow rural collective land enter into market, and set up a uniform market of urban and rural areas to allocate the land resources. At present, we shall get rid of those forceful factors, since it will impair not only the benefit of the farmers but also the government itself. It seems that as long as a government owns land, fund and projects, can it build a city of any scale as it like. However, it will break the law of economics and will be punished in the end. The so-called harmful local debt is a bad product of it. The behavior of grabbing land and demolishing neighborhoods will cause a strained relationship between the government and its people and do no good for social stability. The government should protect people’s property right and maintain a fair market and social order. If it sets a bad example to scramble profit with the common people, economy will definitely be impaired, and it is likely to cause social conflicts and the government may even be overthrown by people.

Reporter: The 18th CPC National Congress has agreed farmer’s collective construction land be entered into market, but it met great resistance in the process of promoting. Can we overcome the obstacles of the vested interest?

Zhou Qiren: A dream can not be realized without practice. Similarly, a reform shall be led by someone and overcome obstacles of the vested interest. We shall be confident that the vested interest is not that indestructible to break. We must be confident that we will finally obtain some opportunities to get the farmer’s collective land into market with in such a large market in China. In fact, many lands in the rural areas have already put into use in cities. Besides, not all local

governments stick on the “land expropriation system”. Driven by various forces, some have allowed the rural collective land to enter into market. Therefore, firstly, the fundamental orientation for reforming shall be correct. Secondly, we shall have the courage to experiment. Thirdly, we should be smart enough to accumulate some local experience and eliminate all but the essential to accomplish the overall reform gradually. Do not regard the reform as achievable thing once thinking of the vested interest. We have noticed that many places had made breakthrough on the original systems. For example, cities like Chengdu, Chongqing, Changsha, Jiaxing, Wenzhou, Shanghai suburb and Shenzhen have made reforms and allowed farmer’s collective land be used in cities. The Shazi Seed, Shekou Reform and foreign trade reform all started with difficulty under great pressure. However, with the support of the government, they all succeed.

Reporter: Can you talk of the citizenization of farmers and their integration situation after entering into cities?

Zhou Qiren: In the old days in Shanghai, many people from the Subei area came and lived there together. They were very poor at the very beginning and thus the shantytowns came into being. Through shantytowns they finally integrate themselves into the city. We need to have a correct acknowledgement on integration but should not be too ideal, since it is not simply an overnight process and some even require the endeavor of one or two generation. At present, we need to get rid of certain social and institutional discrimination. First, farmers are free to go to city. Second, we need to create conditions to allow them bring some of their social welfare in rural areas to cities. For example, farmer in Anhui Province can enjoy their social and medical insurance in other places within the province. Thirdly, we need to set up a nationwide security system to guarantee people enjoy their social security at any place. We are required to proceed from the reality and make progress step by step. We shall make a research on basis of certain experience and develop towards a correct orientation: to be consistent with modernization, marketization, and democracy and law. Given to the time and depth

of the reform, certain fluctuation is allowed.

For farmer's integration into citizens, we should be more patient, since it can not be accomplished all one once. However, we can do something. Let take Singapore as an example, the Housing and Development Board (HDB) in Singapore has stipulated that residents with different nationalities shall live in proportion so that children are easier to integrate when they grow up. Besides, the tension between different nationalities would be avoided. People should not set up obstacles intentionally and should get rid of severe gaps and institutional barriers. Education and social policies are also of vital importance to make the integration develop towards culture.



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