

# FTA Should Become A Model for Exploring and Developing High Level Game Rules for Countries along the “Belt and Road” Initiative

Reporter: SHI Jinxing



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## Chen Bo

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FTA could be not just a system that can be based and used to explore high-level investment and trade rule system for China, but can be based and used to explore high-level rules for countries alongside the “Belt and Road” initiative, to set such rules as management of negative list of investment access, country's rule of law, government neutrality in the competitive markets, and capital account liberalization, etc.

**Reporter:** Some scholars believe that the Goose Mode in which China is leading is the true meaning implicated in the “Belt and Road” initiative, in your opinion do you think whether the countries along the routes are fit to the mode?

**Chen Bo:** Goose mode was proposed by the Japanese scholar, Professor Kiyoshi Kojima, who used it to describe the international division of labor between Japan and East Asian countries in the post-war era, mainly stating that for constant

developments, backward countries could be driven by the developed countries under the mode in which Japan is seen as the head of the goose group and four East Asian "tigers" as wings, and Japan, through supply of its capital and technology, open of its market and inter-regional transfer of its traditional industries, help promote the development of the capital and technology-intensive industries of the four tigers which, in turn, would transfer their labor-intensive industries they lost competitiveness to the ASEAN countries positioned at the end of the goose.

The “Belt and Road” initiative is more similar to the division of labor along the global industrial chains. Still, China is a manufacturing based economy, as put it by the report “2025 China Manufacturing” released recently, “Since industrial civilization in the middle of the 18th century, the history of rise and fall of world’s powers and the history of China’s struggling, has repeatedly proved that without a strong manufacturing sector, there is no the country’s national prosperity”. Under this point of view, we still need a lot of energies and raw materials imported from Central Asia and West Asia on the one hand; on the other hand, our country is in the period of economic restructuring and upgrading, this means there must be some backward or less-efficient capacities or industries that are needed to be relocated to countries with low labor costs, including Southeast Asian countries along the maritime Silk Road, like Vietnam, Indonesia, and Cambodia. Meanwhile, worthy to mention, India's economic growth after adjustments reached 7.4 percent last year, somehow outperformed China. As for the question that whether China’s economy henceforth would have been outperformed by India, I do not think it matters, after all, in terms of per capita GDP, China’s is nearly five times of India's, so in the future, India is also an important candidate to accept China’s industrial transfer.

China's current focus is to create and maintain an international environment that could be conducive to long-term development, meanwhile to put efforts to shift to higher value-added industries along the value chains on the one hand, and to look for other countries in the downstream to accept our excessive capacities on the other hand.

What is more significant of the Goose mode is the spillover effect, it means that the developed countries' economic experiences and advanced technologies to spill over to neighboring countries through trade channels, layer by layer. In a sense it is like a point of wave rippling out to the whole surface. Currently, the “Belt and Road” initiative is more like cooperation along industry chains. Figuratively speaking, it is like dots to connect as a string.

**Reporter:** The ultimate goal of infrastructure investment is to enhance the demands for Chinese industrial products, and help upgrade China's economic restructuring, meanwhile promoting local economic development. In your views, how can we conduct the market-oriented principle, while avoiding unnecessary losses due from the government intervention?

**Chen Bo:** One of the problems we face now is the countries along silk roads are more backward than us in terms of economy, legal system and infrastructure. Due to imperfections of market mechanism, market failure happened everywhere, so it justified the needs of government intervention. The current “Belt and Road” initiative is the one that needs government interventions to help and encourage enterprises going overseas to use the comparative advantages of the host country such as cheap resources, labor and harbors, and to ensure stability of the international political environment, and to avoid damages to the investments due to the political instability and corruption and other negatives of the host government. Speaking at large, when it comes to international strategy, it is the hope that through cooperation between countries, to ensure a good business environment in the host government that is guaranteed by our government's credit.

As for actual sites of investment projects, of course, they should be chosen based primarily on the market behavior. However, the companies going overseas should also pay attention to and respect local cultures, customs and religious beliefs, help local economic development, prosperity and stability, improve self-disciplines, and avoid

short-term profits made at the expense of pollution or through sale of counterfeit and shoddy products that would produce negative externalities to other Chinese enterprises going abroad. For this regards, it also requires our government to regulate and constrain, and improve our legal system.

**Reporter:** In case of encountering political stability risks of host countries along the routes of infrastructure construction connectivity, what are better coping strategies we have?

**Chen Bo:** First of all, government departments should be more professional and efficient, and enhance the sense of our presence and influence in the host country. For example, the International Economic Department of the Ministry of Foreign Affairs is a new unit of the Ministry, established in 2012 in order for China, from political and diplomatic point of views, to better participate in international economic cooperation and economic governance, and to safeguard development interests and economic security of the country. In addition, it may be through chambers of commerce, think tanks, networking of people and intellectual supports. Generally speaking, on the one hand, we should strengthen the political, economic, cultural and social ecologic studies to the countries along the Belt and Road, and assess potential risk profile for our investments in the host countries; On the other hand, we should enhance our influence in these countries to develop good, long-term strategic partnership with local political, business and religious leaders.

Secondly, cooperation through more countries could punish the governments who are with bad faith or breach of promise. For example, The Asian Infrastructure Investment Bank (AIIB) established currently has formed a collective action principle among all of its Member States. If a Member State blocks the port, cut off roads and takes other acts that violates the principles, it will be subject to punishments by other AIIB member countries, meanwhile its credit will be downgraded accordingly. In this way, we would form a real commonwealth of countries along the “Belt and Road” initiative

that can effectively play out the effect to leverage China's role in development of international rules and constraints.

**Reporter:** Financing is an important support for the "Belt and Road" initiative. In the process of supporting the "Belt and Road" initiative, how will AIIB promote internationalization of the Renminbi?

**Chen Bo:** First, in terms of depositing the statutory capital, RMB can serve as an alternative currency. Specifically to say, the Asian Infrastructure Investment Bank (AIIB) has a total of \$ 100 billion in statutory capital, in accordance with the "The Asian Infrastructure Investment Bank Charter", China's contribution is 30%, i.e. \$ 30 billion; if half of which, i.e. \$ 15 billion, can be paid in Renminbi, it can promote internationalization of Renminbi to a certain extent.

Second, if the RMB joins the basket of SDR currencies, it will make more than 180 countries to enhance the RMB shares in their reserves, and would be conducive for increasing the quantity and frequency of RMB pricing and settlement to improve Renminbi internationalization.

Third, it may through AIIB infrastructure investment projects to play out the leverage effect, to improve the degree of RMB internationalization. For example, by the PPP ways to help domestic private capitals to actively participate in overseas infrastructure projects, to enlarge the use of RMB in the investment and financing transactions so as to enhance RMB internationalization.

In accordance with the provisions of "The Asian Infrastructure Investment Bank Charter", 37 countries within the Asia regions are accounted for 75% of the total contribution, while the remaining 25% are allocated to 20 countries outside the Asia. At the same time, for countries within Asia territory, the capital shares are allocated basically in accordance with the proportion of the gross domestic product (GDP) of a

country in the region. And founding member countries outside Asia are also allocated by taking an important reference to their proportion of GDP to subscribe share capitals. From this arrangement, we see the largest contributor is China who is accounted for about 30% of the total capital, and the second is India who will contribute about 10%. On the other hand, total investment of Europe countries plus developed countries of Australia and South Korea is expected to be roughly equal to that of China. Although China currently takes the largest share, it is almost concluded that it would give up the veto power within the Bank.

**Reporter:** In addition to the financial support by the international organizations, another hot point in the market is the PPP model which levers social private capitals and forms the cooperation of government and social capitals to help the “Belt and Road” Initiative. The problem now is overseas projects such as energy, communication, high-speed rail and nuclear power are all directly related with the state-owned enterprises, in your opinion, could private enterprises have its part to play in this regard?

**Chen Bo:** Judging from the current Chinese overseas infrastructure projects, whether be it nuclear power, high-speed rail ways, large-scale equipments or energy, we see that all is dominated by state-owned enterprises. With gradual improvement of the infrastructure it will stimulate a lot of demands of infrastructure investments from China and other countries. Advantageous and excessive capacities of private enterprises in the areas of building materials such as steel, cement and glass may go out to the countries along the “belt and road” to cooperate with them.

Judging from the long run, the SOEs first going out can also explore and formulate a system of rules in regards to investment and trade with the countries in order to protect the interests of domestic enterprises. With further development in terms of policy communication, connection of facilities, smooth trade flow, financing, and people-to-people connection, private companies can play a bigger role on this basis.

**Reporter:** During a recent interview with the Labor News, you talked about that the greatest significance of linking FTA and the "Belt and Road" initiative is that the countries along the Belt and Road could establish such new trade and investment rules that are based on reciprocal and equal opening. In your opinion, how would countries along the roads be able to achieve high standard of investment and trade rules while facing market imperfections, political instability, weak industrial base, and defective legal system?

**Chen Bo:** FTA is a testing plot explored and established by China in order to accept high-level investments or to accommodate to high-level investment and trade systems. We hope we can soon create a replicable system so that we can promote it through out the countries.

How can China's "Belt and Road" initiative interlink the FTA? Previously, energy security, investment security and capital free-movement assurance in the host country, among others, were the pressures in the trade and investment agreements that the United States and other developed countries placed on China. Now the relation of China to the Central Asian countries and West Asia countries along the silk routes is just like the America to our country previously. Look at in this way, FTA could be not just a system that can be based and used to explore high-level investment and trade rule system for China, but can be based and used to explore high-level game rules for countries alongside the "Belt and Road", to set such rules as, for example, management of negative list of investment access, country's rule of law, government neutrality in the competitive market, and capital account liberalization and so on.

So the role of FTA in the "Belt and Road" initiative can be summarized as: to learn the advanced, inspire the backward, and move to the same direction and in varying degrees.