

# NEWSLETTER SHANGHAI FORUM

ECONOMIC GLOBALIZATION AND THE CHOICE OF ASIA

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# NEWSLETTER SHANGHAI FORUM

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

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**Kong Lingzhi** Deputy Director of National Health and Family Planning Committee (Former MOH)  
**Christopher Marquis** Harvard Business School  
**Jose Antonio Puppim De Oliveira** Assistant Director and Senior Research Fellow, United Nations University  
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**Ye Jiang** Senior Fellow and Director, Institute for Global Governance Studies, Shanghai Institutes for International Studies  
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## Shanghai Forum (2013) Opening



“ The Opening Ceremony of the Shanghai Forum (2013), one of China’s top international academic annual forums, was held on May 25 at the Shanghai International Convention Center. Focusing this year on the topic of Asia’s Wisdom: Seeking Harmonious Development in Diversity, the annual Forum has this time round brought together more than 500 prominent people with interests rooted in politics, business and academic pursuits. These esteemed guests come together to contribute their knowledge and suggestions to the economic and social development of not only Shanghai, but also China, Asia as a whole, and other nations all over the world. Their voices come together as a unified force in Asia, aspiring to implement a pluralistic vision in the hope of developing a more harmonious Asian society that can serve as a model for the development of other economies and societies around the world. ”



Weng Tiehui, Vice Mayor of Shanghai, attended the opening ceremony and welcomed the honorable guests on behalf of the Shanghai Municipal Government, wishing Shanghai Forum(2013) a full success.

Yang Yuliang, President of Fudan University, attended

the ceremony and delivered a speech. Mr. Park In-kook, President of Korea Foundation for Advanced Studies, made his speech on behalf of Mr. Tae-Won Chey, Chairman of the Board & CEO, SK Group. Zhu Zhiwen, Chancellor of Fudan University, presided over the opening ceremony on the day.

At the opening ceremony, five figures of international fame - Robert Zoellick (former President of the World Bank Group, Senior Fellow at the Belfer Center at Harvard University’s Kennedy School of Government and at the Peterson Institute for International Economics), Fang Xinghai (Director of Shanghai Municipal Office of Financial Services), Michael Merson (Director, Duke Global Health Institute and Vice President of Duke University), Robert Mundell (1999 Nobel Laureate in Economics, Professor of Economics at Columbia University) and Fan Yongming

(Dean of Department of International Politics at Fudan University and Director of the Fudan Center for BRICS Studies) – delivered keynote speeches. They expounded from the point of view of their respective areas of research, touching on trends and development in the world economy, opportunities and challenges facing human society in the face of global public health problems, the rise of the BRICS nations and new patterns in global politics and the global economy, etc, all of which the whole audience spoke highly. President Park In-kook hosted the section of keynote speeches.

The Shanghai Forum (2013) is held in Shanghai from May 25 to 27. The Forum this year comprises 10 panels that with the following key themes: After the Asian Miracle: Problems, Challenges and Choices; How Does the World Economy Recover without Safe Assets?; The Integration of the Asian Regional Economy: Target, Path and Policy; Asia's Wisdom: Approaches to Disputes; Asian Legal Wisdom: Diversity and Unification; Global Governance and Asia's Wisdom; Innovation-driven Urban Development in Asia; How to Assure Health for 4 Billion People in Asia?; Emerging Asian Renewable Energy: From New Technology and New Industry to a New Market; Climate Change and Environmental Protection: The Focus of Human Attention.

In addition, as one of the highlights in this annual forum, top roundtables in Shanghai Forum this year continue to concentrate on a series of pioneering, challenging and debating topics. Across the 4 top roundtables - Global Safe Assets Deficiency: A Puzzle to be Revealed; Think Tanks Dialogue: New Global Opportunities, New Leadership, Renewed Responsibility, New Policy? Sustainable Public-Private Partnership: New Opportunities and Challenges of Public Governance in Asia; Fudan University China Financiers Club Roundtable – representatives discuss

the above topics deeply and heatedly from their personal research and experience. As explained, during the 3-day conference, over 500 representatives from more than 30 countries and regions discuss numerous hot issues concerning Asian and global cooperative development broadly, profoundly and from a multidimensional perspective. Shanghai Forum (2013) announces an annual Shanghai Forum Consensus on 27th when the proceedings come to a conclusion.

Shanghai Forum is an international economic forum hosted by Fudan University and sponsored by the Korea Foundation for Advanced Studies. As a communication platform for academic, political and commercial communities, Shanghai Forum has been held for seven years consecutively. The Forum invites leaders and experts from all fields to discuss and provide insights and suggestions for Asia's overall economic, political, social and cultural progress. Under the general theme of "Economic Globalization and the Choice of Asia", the Forum's mission is to "Concentrate on Asia, Focus on Hot Issues, Congregate Elites, Promote Interactions, Enhance Cooperation and Seek Consensus".



# Summary Meeting on Shanghai Forum (2013)

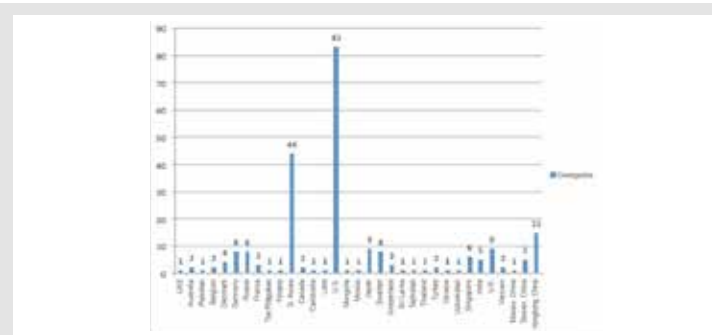


Shanghai Forum (2013) Summary Meeting was held at Room 701, East-main Building of Guanghua Towers on June 21, 2013. Fudan University Vice President Lin Shangli, Shanghai Forum Organizing Committee, some members of the Academic Committee and panel chairs attended the meeting.

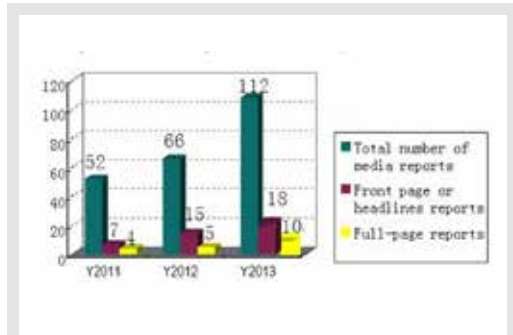
The meeting was held by Prof. Chen Yinzhang, Secretary-General of the Shanghai Forum Organizing Committee and Advisor to the President on International Affairs of Fudan University. During the meeting, Prof. Zhang Yi, Executive Vice-Secretary-General of the Shanghai Forum Organizing Committee and Director of the Forum Secretariat Office summarized the just concluded Forum in five aspects of its organization, participants, academic products, media coverage and innovative highlights, after which Prof. Xiao Xijian, Director of Publicity Department dwelt on the Forum's publicity scheme and its resulting effects. VP Lin highly praised the organizational work of the Forum and expressed gratitude to all working staff. He also looked forward to future development of the Forum

and wished it to become a brand of Fudan University through sincere collaboration and continuing efforts of all related parties.

The Shanghai Forum (2013) consisted of four sub-forums: economics & finance, politics & law, urbanology & sociology and environment & energy, under which there were ten panels, five roundtables and two pre-session roundtables. Compared with previous rounds, the Forum expanded its research fields and promoted its academic influence by introducing new topics concerning public health and climate & environment for discussion and launching featured roundtables of finance, think tanks and China Financiers Club. The Forum attracted 678 participants from 34 countries and regions. More than 60 seminars were held and above 380 delegates made presentations during the three-day meeting. Diversified academic products of panel research reports, Asian studies reports, two volumes of selected papers of Shanghai Forum 2012, perspective highlights, interviews with guests, etc. have been published so far, which preserves and spreads the discussion fruits of the Forum.



The Shanghai Forum (2013) invited a total of 678 guests from 34 countries and regions all over the world.



Remarkable growth of media reports compared with previous rounds of the Shanghai Forum



Diverse academic products displayed at the Shanghai Forum's exhibition zone during the conference

## The 9th Chinese Asia Research Center Directors' Workshop



The 9th Chinese Asia Research Center Directors' Workshop was held at Yan'an University from 31st, Jul. to 1st, Aug., 2013, jointly by Korea Foundation for Advanced Studies (KFAS) and Renmin University of China (RUC). Over fifty delegates from 13 universities and research institutions, as well as KFAS members, attended the conference whose theme was "Another Decade for Asian Studies".

Vice President Yi Zhihong of Renmin University of China hosted the opening ceremony. President Chen Yulu of Renmin University of China and concurrently Chairman of Asia Research Center at RUC, President Park In-kook of Korea Foundation for Advanced Studies, Secretary Wang Yajie of the Party Committee at Yan'an University respectively delivered their addresses. Secretary Yang Xueyi of the Party Committee at Beijing Foreign Studies University, Vice President Wu Zhipan of Peking University, Vice Chairman Hu Xianzhang of Asia Research Center at Tsinghua University, Vice President Luo Weidong of Zhejiang University, Vice President Zhu Guanglei of Nankai University, Vice President Lu Jierong of Liaoning University, Vice President Cui Jiongmo of Yanbian University and Vice President Zhang Weihu of Yan'an University also attended the conference.

During the Keynote Speech Session, Professor Du Peng from School of Sociology and Population Studies, RUC, and concurrently member of Asia

Research Center gave a speech on "Population Aging and Situation of the Aged in China", while Professor Huang Dahui of School of International Studies, RUC, and concurrently member of academic committee of Asia Research Center delivered a speech on "Structural Transformation of Sino-Japan Relationship and its Influence".

During the roundtable session about work report, delegates of the Asian Studies Centers of Peking University, Tsinghua University, Renmin University of China, Fudan University, Zhejiang University, Nankai University, Communication University of China, the Chinese Academy of Social Sciences, Liaoning University, Yanbian University, and representatives of Beijing Forum and Shanghai Forum, shared their opinions on the achievements and characteristics of their work of the centers, directions of development and future expectations, especially on how to further the communication and cooperation in the next decade and promote academic creativity in Asia Research. The meeting concluded in an enthusiastic and solemn atmosphere. President Park In-kook made a summary speech, giving high appraisal of the organization of the meeting and full affirmation to the work of all the research centers.

The annual workshop is sponsored by Korea Foundation for Advanced Studies, through which 11 Asian Research Centers, Beijing Forum and Shanghai Forum strengthen ties and deepen cooperation. After years of development, researches of these centers have almost covered all aspects of Asian affairs, some of which have even taken leading roles in the related fields.

## Opening Ceremony Addresses



■ **Yang Yuliang**  
President, Fudan University

**D**istinguished guests, ladies and gentlemen: Welcome to Shanghai Forum (2013), which is jointly held by Korea Foundation for Advanced Studies (KFAS) and Fudan University. Firstly, on behalf of Fudan University, I would like to extend my warmest welcome to all the officials, guests, experts and friends attending. We also owe respect to the constant caring and support from the Ministry of Education of Shanghai. And our sincere thanks will go to Korea SK Group and the KFAS.

Since 2005, Shanghai Forum has experienced seven successful sessions. This is the eighth time it was held. The forum brought together elites in political circles, academics and the business world. They have discussions in depth on the political and economic problems and social issues in China, Asia even the world at large. They offer possible win-win solutions to the problems and provide constructive suggestions for policy makers. All those participated in the forum have continuous research and reflections in relative issues and have obtained rich experiences. Thus the forum reaches a high level and is becoming known in the international world. This year we settled in Shanghai International Conference Center for the first time. The center is neighboring to the mother river of Shanghai- Huangpu River that has seen the significance of the city in the industrialization, economic development and financial development of China. The river





has also witnessed Shanghai when it led in the tide of Reform and Opening Up. Therefore, it's significant that we hold the forum at this place. The history of the river and the city reminds people that human need to, with enough intelligence, find solutions to current issues in seeing the past to fit in the changing world. Yet it is still more important for us to find possible answers to the problems in future development. And Fudan, willingly and obligated, is a provider of such intelligence. That's the reason that the theme of Shanghai Forum this year was determined on "Asian Intelligence: Pursuing Harmonious Development in Diversity". Harmony is a word with heavy Asian cultural characteristics. It is increasingly accepted by various cultures of the world. Contemporarily and even in a long future, it is necessary and important for us to make clear harmony and realize a harmonious development in our community, politics and economic society. We emphasize to overcome crisis with intelligence and replace confrontation with dialogue. Seeing the development of countries in the past decades, we found it important to realize scientific development and economic growth. Simple imprisonment is not enough to make the world better. Comparing with the efforts human made to increase material civilization, the world is really enjoying less harmony as we are building a world of tolerance, harmony and mutual trust. We should think deeply about what exactly caused the situation. Another consideration when we put forward the theme is that, in the context of globalization, how Asian countries can manage to maintain a steady development when the world's major developed economies successively face the challenge of financial crisis. Whether we are moving along a road that can stand the test, whether we are ready to embrace future challenges, Whether Asia can shoulder greater responsibilities or how Asia can solve the problems independently and take responsibility for the world. Such questions need to be discussed in a rational, thorough and prudent manner with the knowledge of the academics and the experiences of elites in the political and business world.

We hope that the consensus reached in Shanghai will be the future reality of the world. Surrounding the theme word "Asian intelligence", we will have wide and in-depth discussion on ten key issues, including the Asia after its growth miracle, how world economy recover without complete asset, Asian regional economic integration in the new situation, ways to resolve disputes, the diversity and unification of Asian intelligence, the issue of global governance, innovation drive and Asian urban development, how to guarantee Asian health, rise of Asia, renewable energy, climate change and environment protection. It is worth noticing that we first raised the issue of Asian public health in this forum. We will pay more attention to issues of the livelihood and well-being of Asian people in the future, highlighting the forum's concern for people.

There is an old saying in China goes: "Seeking common ground while shelving differences." Today, it can be explained that the well-being of all mankind are common, but the way to realize it may vary. Another Chinese old saying goes: "Different roads converge at a point." It means that there are different ways to realize a same purpose. Therefore, we believe that in full respect of each other's positions and differences, people of different circus from different countries can fully display their intelligence and knowledge in rational, open and free discussions and dialogues. And your wisdom will condense to the wisdom of Asia even of the world. We will seek a way to realize peaceful coexistence, win-win cooperation, sharing fruits and harmonious development. Finally, I wish you a nice time in Shanghai. I hope that you fall in love with Shanghai, Fudan University and love China. You may visit China, visit Fudan after the forum. Thus can Fudan hear the world and also show the world its development and progress. To all of you, thank you.

*(Edited from a shorthand record)*





- **Tae-Won Chey**  
( Delivered by Park In-kook )  
Chairman of the Board & CEO, SK Group, Korea
- **Park In-kook**  
President, Korea Foundation for  
Advanced Studies, Korea

*I'm going to deliver this opening speech on behalf of Chairman Chey Tae-won of SK Group, who is also the board chairman of Korea Foundation for Advanced Studies.*

Honorable Chancellor Zhu Zhiwen,  
President Yang Yuliang,  
Vice Mayor Weng Tiehui,  
Distinguished guests, ladies and gentlemen,

Since 2005, the Shanghai Forum has become a leading venue for discussing major global issues facing international community. This forum is particularly meaningful because it seeks to address Asian problems from a global perspective as well as to answer global issues through Asian wisdom and perspective. It is a great honor for Korea Foundation for Advanced Studies to cohost with Fudan University this prestigious international feast of sharing knowledge and wisdom.

This year's theme, "Economic Globalization and the Choice of Asia - Asia's Wisdom: Seeking Harmonious Development in Diversity", once again, invites world renowned scholars and government and business leaders to share their invaluable insights and ideas in addressing various issues that we face together.

Perhaps there is no better city to hold this kind of discussion than Shanghai. Shanghai has demonstrated itself to be not only a locomotive of breathtaking economic achievements but also a hot bed of cultural and social achievements. This city embraces diversity - socioeconomically, ethnically, and globally - to provide a fair chance to anybody with the "Shanghai dream" to come and prosper. As Shanghai is the symbol of the

approaching "Era of Asia," I have no doubt that China and Asia will play a pivotal role in leading the world into the most prosperous time in history.

Since the 1990s, the term "globalization" has become a dominantly prevailing notion in economic, social and political discourses. Thanks to the great progress and economic achievement from "globalization", we are truly living in a closely interconnected world that enjoys rapid transportation, high speed communication, and more accessible markets and capital.

However, we need to ask ourselves whether real business value is localized in emerging economies or just transferred back to the point of origin after cheaper labor and resources are completely utilized. The availability of investment capital, facilities to drive innovation, talented human resources -- those key factors are still very unevenly distributed across the world.

The recent economic crisis is an example of the downside of "globalization", which is also aggravated by disparities in development. I, therefore, wish to urge everyone to recognize the seriousness of the issue and accept the mission of the "Era of Asia" in setting a new course for building a sustainable social and economic system. This is ultimately to bring common prosperity to everyone around the world, especially to those who are marginalized from the benefits of "globalization".

Asia has been less influenced by the 2008 financial crisis than any other part of the world. This deserves further closer study on the characteristic features of the East Asian region. Given the traditional lack of experience or desire for regional integration in Asia, it is a surprise

that Asian countries have recently made remarkable progress in regional financial coordination. The amount of enthusiasm shown by the region for collaboration has been beyond expectation, exemplified by Chiang Mai Initiative and other efforts. I hope the Shanghai Forum will become a powerhouse in offering the Midas touch in handling such complex and daunting issues. As part of such effort, SK renews its commitment to unswerving support for the Shanghai Forum through Korea Foundation for Advanced Studies.

Furthermore, SK has found “Social Enterprises” to be an effective vehicle to lessen social disparities. SK now supports more than 75 social enterprises in Korea and abroad. It also works with international organizations in establishing a social enterprise ecosystem. During last year’s Shanghai Forum, we had organized a sub-forum called “Innovation, Entrepreneurship and Sustainable Management” focusing on corporate social responsibility. We are greatly proud of playing any role in this far-reaching endeavor.

In addition, SK Group will continue its efforts in solving a dilemma facing international community on how we could achieve sustainable development without further hampering the environment, the only irreplaceable human common. If there is a way to kill two birds with one stone on this chronic challenge, the most plausible solution seems to be renewable energy. SK wants to remain a leading business group that strives toward technology innovation in the arena of renewable energy. That’s why we helped organize a roundtable session on this topic during last year’s Shanghai Forum.

Ladies and Gentlemen, it is a critical time for all of us. We have to choose the rightful path toward an all-inclusive prosperity and sustainable economy. If we unite and work together, we will sail through any strong headwind ahead of us and lead the world into prosperity.

最后，我想借用中国古代诗人李白的诗，来结束我今天的致辞。  
“行路难，行路难，多岐路，今安在。  
长风破浪会有时，直挂云帆济沧海。”  
(Finally, I’d like to conclude the address with poetry of Li

Bai, famous Chinese poet in ancient times.

This roughly translates to:  
There are too many tough roads ahead.  
Strong winds and big waves may come against us.  
But we will cross the bottomless ocean and surely reach the other side.)

Thank you.

*(Edited from a shorthand record)*





■ **Weng Tiehui**  
Vice Mayor of Shanghai

**D**istinguished guests, ladies and gentlemen,  
Good morning. May is the best time of the year in Shanghai. And Shanghai Forum that was jointly held by Fudan University and KFAS is revealed today. First, on behalf of Shanghai People's Government, I would like to express my congratulations to the opening of the forum. I hearty welcome you who attend.

University is a natural intelligence pool. It has an obligatory responsibility to provide innovative minds and constructive public policies. Fudan University, with the support of KFAS and all parties, has held seven sessions of Shanghai Forum since 2005. And the forum is becoming one of the most influential academic forums of China. Over the past years, economic globalization accelerated. Shanghai Forum, basing in Shanghai, has focused on finance and trade, politics and international relations, urban development, environment and many other hot issues of China, Asia even the whole world. It brings together elites of politics, business and academics from all around the world. And the forum, after development of several years, has become a platform for elite and experts to research and discuss to reach consensus, a platform for decision making consultation and a platform that promotes friendship. The theme of Shanghai forum this year is "Economic Globalization and Asian Choice, Asian Intelligence: Pursuing Harmonious Development in Diversity", pointing out crucial problems in the current complicated international political and economic situation. On one hand, economic globalization is an important impetus for Asia's rapid economic development in recent decades. Especially since 2008 global financial crisis, Asian countries and areas are increasingly becoming one of the strongest supporters of economic globalization. Shanghai, as a frontier city of the Reform and Opening up of China, has been seeking further opening up by building free trade area and promoting reform and development by participating in globalization.

Yet on the other hand, we should be aware that the contradiction between economic globalization and the lack of global governance is going fierce. The

arrangements and system in global issues such as economy, finance and trade are far from enough to sustain a world of peace, prosperity and stability. We should search for the harmonious coexistence of people, nature and different nations, ethnic groups and civilizations in traditional wisdoms of China, Asia and world civilizations. Therefore we are eagerly awaited that this forum can provide extensive constructive ideas and perspectives.

Shanghai, as a frontier city of the Reform and Opening up of China, has experienced growth at a high speed in many years. Today it comes to a key period of economic restructuring and developmental transition. Recently Prime Minister Li Keqiang pointed out in his investigation in Shanghai that to upgrade Chinese economy, we should not only maintain a steady economic growth, prevent inflation and control potential risks, but also seek progress in stability and make achievements in a steady environment. Shanghai will push make unremitting efforts to promote innovation drive and development transition in accordance with the overall arrangements of the central government. The city will form new impetus with the benefit of reform, potential domestic demand and innovation vitality. We are making efforts to build Shanghai a city of opportunities and prosperity. We will do our best to lead in scientific development and be a frontier city of reform and opening up. In this process, we need to listen to the minds of all parties to broaden minds and come up with new reform initiatives to gain fruits. Therefore we are looking forward to seeing innovative development thoughts and policy proposals appear in this Shanghai Forum. Ladies and gentlemen, at a time when this forum is about to unveil the curtain, let's await for the exchanging and blending of minds and make common efforts for a better tomorrow. At last I wish the forum a complete success, thank you.

*(Edited from a shorthand record)*

## Opening Ceremony Keynote Speeches



### ■ Robert Zoellick

The Eleventh World Bank Group President  
Senior Fellow, Belfer Center at Harvard University's Kennedy School of Government and the Peterson Institute for International Economics

## A New Era of Great Power Relations

**T**hank you very much, Ambassador Kim. Thanks to all of you for the invitation to this very prestigious forum. It is a pleasure to take part in this event at the suggestion of my good friend, Professor Wu Xinbo of Fudan University, whom I first met in the 1990s through the late Dr. Michael Oxenberg, Senior NSC official for China when our two countries established official diplomatic relations. I'm also very pleased to see the Korean Foundation for Advanced Studies is this forum's sponsor, underscoring the potential for constructive regional ties—the theme of this event.

Last year during his visit to the United States, President Xi Jinping introduced the idea of a "new type of great power relationship." In March of this year, in apparent response, President Obama and his National Security advisor Tom Donilon suggested an interest in building a new model of relations between an existing power and an emerging one. I suspect that President Xi's concept reflects the senior leadership's study of history. At last year's meeting of the U.S.-China Strategic & Economic Dialogue, then-President Hu stated, "we should prove that the traditional belief that big powers are bound to enter into conflict is wrong, and instead seek new ways of developing relations between major countries in this era of economic globalization." In the United States, professors Graham Allison and Joseph Nye at Harvard have referred to this challenge as the "Thucydides Trap." In explaining the cause of the great Peloponnesian War in the 5th century B.C., Thucydides pointed to the rise of Athens and the fear that it inspired in Sparta. In centuries since, scholars have pondered how power shifts have led to

competitive tensions, which sometimes have been managed, and other times have led to conflict.

Today I will pose a question based on President Xi's suggestion: what might be the substance of "a new type of great power relationship" between China and the United States? My friend Kevin Rudd, former Prime Minister and Foreign Minister of Australia, has also taken up this topic in a series of thoughtful speeches. Mr. Rudd has outlined a new strategic roadmap for United States-China relations. His approach points to the need for reinforcing dialogues and cooperative efforts. I will complement Mr. Rudd's observations by suggesting specific policies that could forge this new type of relationship. In particular, I will focus on both economic and security issues, as well as impediments that China and the United States need to address.

In 2005, I suggested that the United States and others should encourage China to become a responsible stakeholder in the international system that had provided a supportive context for China's extraordinary modernization and economic rise. Deng Xiaoping shrewdly recognized that China's opening could capitalize on the existing international system of trade, investment, technology, growth, and security. Through the hard work of China's people, Deng Xiaoping was proven correct. Yet the international system of the late 20th century has to evolve with new times. Responsibilities for preserving and extending systemic interests, and adapting to new challenges, need to be considered part of great powers' national interests. The United States, China, and others, however, will not be able

to adapt the system successfully if they do not share a basic commitment to that international system.

Some observers believe that China has acted like a reluctant stakeholder, especially when it comes to translating common interests into complementary policies. In speculating why, they've asked, is China still debating or adapting to its role, or, as some voices in China suggest, does China want a new system? If so, what would it look like? Does China want to add different ideological content to international relations, which would represent a shift from past Chinese policy? These uncertainties have prompted another important query: have Chinese critics of the current international system considered the costs of, and reactions by others, to new Chinese aims? Not surprisingly, these questions are arising first in the Asia-Pacific region. Therefore, in considering a possible "new type of great power relationship," we need to have a serious, in-depth exchange about whether China and the United States share common systemic interests, as well as about specific policies. Interdependence by itself will not overcome 21st century problems and threats. These questions fit the agenda of Shanghai Forum, because the nature of Sino-American relations will shape Asia's security, development, and politics, as well as Asia's connections with the world.

China's astounding economic success, growing on average 10% a year for thirty years, has propelled it to become the second largest economy in the world, the second largest trader of goods and services, and the second largest recipient of foreign direct investment. The United States, in turn, still accounts for about 22% of global GDP. Although productivity gains are harder to achieve as advanced economies move to the technological frontier, recent American innovations in energy, software, and business models reveal a developed economy that retains unusual capacities to adapt and revitalize itself. In contrast to most other developed economies, and even many developing ones, the United States demographic outlook is modestly positive. United States integration with its North American partners also offers good prospects. Yet the combination of global structural shifts, in particular the rapid rise of developing economies, along with the stumbling global revival from the great recession, necessitate more changes for China, the United States, and the world.

China's developmental challenges are described well in the China 2030 Report released last year. That report was prepared by the Development Research Center of the State Council along with other Chinese ministries, and an international team from the World Bank Group. The basic problem the researchers were trying to solve was how China could avoid the so-called "middle income trap", which is the tendency for productivity and growth to slow after developing economies reach middle-income levels. Our Chinese colleagues wisely recognized that straight-line growth projections rarely come to pass. Consider this problem in a historical perspective. When the World Bank reviewed the performance of 101 economies that the Bank categorized as middle income in 1960, it discovered that by 2008, almost 50 years later, only 13 had made it to high income, and one of those was Greece.

China has relied heavily on investment in fixed assets, principally by the government, and export-led growth. So, China will need to adapt to global structural shifts.

Now that developing economies account for half of global output, indeed about two-thirds of global growth over the past 5 years, China can no longer base its growth model principally on sales to developed economies. China needs to change its growth model to rely on greater domestic demand and consumption, as well as a greater role for the private sector. Investment in human capital will be of increasing importance, and so will the encouragement of the innovative spirit of China's talented people. This shift could enable more Chinese to benefit from their decades of diligence. In doing so, increased consumption might ease social tensions as well. The China 2030 Report outlined a pathway to a new growth model, including completing the transition to markets for land, labor, enterprises and financing; moving to an open innovation system so as to allow China to move up the value chain; offering equal opportunity and basic social protections to all Chinese; restructuring fiscal systems to match accountability for revenue and expenditures at various levels of government; cleaning up the environment and pricing resources for scarcity; and considering the international implications of China's structural shifts.

I do not expect China's new leaders to act through a "big bang" reform. I do think that they and the provincial leaders will pursue pragmatic experimentation. Premier Li Keqiang has pointed to urbanization as the portal through which China can pursue connected change, combining issues of land, labor, enterprises, education and other services, consumption, living standards, new infrastructure, housing, sustainability, financing, and governance. Even recognizing the need for change is a very big step forward. In contrast, over 20 years ago, I watched Japan's political and bureaucratic system resist the need for a new growth model, and now Prime Minister Abe is having to take bold steps to rectify Japan's past resistance to change. Yet China's next reform push will be difficult. The Chinese leadership will need to maintain balancing growth in the near term by relying principally on the current economic structure while changing that structure for future growth. A "new type of great power relationship" would anticipate the economic and even institutional changes that lie ahead. China and the United States should identify mutual interests in supporting structural reform and rebalancing in both economies.

Consider what a new cooperative economic approach might reveal. For example, to boost productivity, create jobs, expand entrepreneurial opportunities, and increase consumption, China needs to open competition in the services sector. The Chinese private sector should expand its role. In addition, United States and other foreign businesses and investors can bring know-how, technologies, and global connections to support expanded Chinese services sector. This cooperation can alleviate trade imbalances and frictions while promoting mutual interests. China's innovation agenda needs to combine education, technology, venture capital, network effects, and better IPR protection and enforcement. Again, United States participation could assist while benefiting the United States and others, too. Stronger but flexible social safety nets in China could draw from international experience in insurance, savings, and delivery of service models. The United States in turn needs to address the costs, financing, and incentives of its older and much more expensive safety nets. China's food needs and water conservation could be assisted by United States and foreign products,

technologies, and systems, including those for stronger food safety and quality. More open markets could expand the complementarity of trans-Pacific agribusiness, while boosting living standards. There are mutual opportunities in energy and environmental sectors, including lower carbon sources, alternative technologies, and systems and experience for clean air, water, biodiversity, and land use. All these adaptations need to be supported by deeper, more diverse, and more liquid markets for savings, credit, and investment, while ensuring safety, soundness, and effective crisis management. China needs to shift from being a nation of savers with minimal returns to becoming a nation of investors who play a role in China's private sector development. China, the United States, and others need better frameworks to encourage cross-investment while managing national security and other sensitivities.

In a sense, China's 21st century leaders can look to the logic of Deng Xiaoping and Zhu Rongji, employing the markets, rules, competition, opportunities, and standards of the international economy to contribute to China's structural reforms and advancement. The United States also needs structural reforms, especially in pension and healthcare systems, tax reform, public-private partnerships for infrastructure, and education connected to skills and jobs. United States entitlement programs now cost every man, woman, and child in America \$7,400 each year, more than China's income per capita. China and the United States each have very good, self-interested reasons to pursue these structural reforms. Yet cooperation can boost mutual prospects and the likelihood of success. Moreover, the effectiveness of United States and Chinese reforms will boost global economic conditions and enhance the likelihood of structural reforms elsewhere. My sense is that the United States-China Economic Dialogues, whether under the headings of strategic, joint commercial, G20, APEC, WTO, or other fora have become too stilted, too defensive, unimaginative. China's new growth agenda and America's recovery offers an opportunity. Both parties need to explore win-win connections. Not all ideas will prove workable, but a "new type of great power relationship" could seek creative openings and solutions. Moreover, as the two major economic powers, developed and developing, the United States and China need to consider how their cooperation can catalyze improved regional and global systems. For example, moves to open up China's services sector, which are in China's own interests, could be deployed to boost the service sector liberalization negotiations in the WTO. The WTO information technology agreements in the 1990s proved to be a great boon to global sourcing, supply chains, logistics systems, innovation, and consumers. The WTO members are now discussing an ITA-2, to update the old product list and to add services. China and the United States should be driving this effort.

There are other opportunities, too, from trade facilitation measures to rules for more open government procurement. There will be increasing pressure to clarify the rules of open competition for state-owned enterprises. A few years ago sovereign wealth funds demonstrated that steps toward increased transparency and encouraging best practices could counter anxieties while improving overall performance. The United States and China need to be discussing the future of the international monetary system as well. That system has to adjust to both global shifts and the consequences of today's extraordinary

monetary policies. The world needs to be on the watch for competitive currency devaluation. As China internationalizes the RMB and moves towards an open capital account, a new era of great power relations will require the major economies to manage the evolution to a multiple reserve currency system.

China and the United States have experience and perspectives on development that could assist other countries, whether through natural resource development, agriculture, expanded manufacturing and supply chains, service sector development, infrastructure, or investment. China and the United States have a common interest in inclusive growth, good governance, transparency and anti-corruption, rule of law, trade, and avoiding boom-bust cycles. This new era could foster cooperation with multilateral institutions, and with private-sector networks. Environmental topics need to be explored too, from biodiversity and wildlife conservation to low carbon development. Frankly, if the United States and China are at odds on topics that require cooperation across national borders, the international system is unlikely to act effectively. If China and the United States can cooperate, even if just step by step, others are likely to join in. The economic agenda for a new type of great power relationship could be very extensive. There will be sensitivities and differences to manage, but the expanded network of economic ties, whether governmental, private, transnational, or multilateral, can be a source for problem solving ideas and creativity, and some cushion to absorb the inevitable differences.

But China and the United States do not have such a network to deal with security issues, whether bilaterally or multilaterally. I think this gap can be traced in part to a structural difference. In China, the People's Liberation Army reports to the Central Military Commission, a Party institution with only one or two civilians. I have observed that China's senior foreign policy officials, even up to the level of State Councilor, are unlikely to be able to intervene on security topics until after the PLA has acted, and sometimes only after damage has been done to China's foreign relations. China does not have a national security council system to integrate security, foreign, defense, and even economic and political considerations. As a result, there is no institutional Chinese counterpart for what elsewhere would be described as political-military discussions. At times, China and the United States have had military-to-military exchanges, but these are not yet at the appropriate levels. China turns the discussions off and on to register displeasure, and that inhibits the in-depth exchanges and trust that need to be forged.

Moreover, a new type of great power security relations necessitates much more than discussions among militaries. Some Chinese officials and scholars have recognized the need for fuller integration of Chinese views on security and foreign policy topics. The Chinese system might, for example, look to a member of the Standing Committee of the Politburo to interconnect defense, foreign policy, security, and international economic topics, drawing together the PLA, government officials, and the Party. Or, the Party leadership might rely on subcommittees. However it is structured, a political-military discussion between China and the United States could supplement a renewed strategic dialogue. The current dialogue has taken up important topics, but too briefly, too infrequently, and with limited engagement at the highest levels where the

strategic decisions are likely to be made. The most effective Sino-American strategic exchanges, such as Kissinger-Zhou, Brzezinski-Deng, have been small and involve many hours of conversation to develop a greater understanding of world-views, interests, and conceptual frameworks. A true high-level strategic discussion, including political-military dimensions, should foster a dialogue on historical perspectives, geographic considerations, economic dimensions, technological shifts, political constraints, perceptions of changing conditions, national interests, and a search for mutual interests. It could also assist China and the United States to manage differences. In such a dialogue the United States should offer a clear explanation of why its policies are not based on a containment strategy, as some Chinese seem to think. The United States should also explain its strategic concept of relations with China, and why hedging policies by the United States and others could be a reasonable reaction toward some Chinese behavior.

Most importantly, the United States and China have mutual interests that they should at least understand, and perhaps even foster together. For example, these interests might include: freedom of the seas and maritime security, which is important for China's international economic interests, regional stability, and important for United States linkages as a maritime and Pacific power with Eurasia; open skies and access to outer space, so as to facilitate movement of people, goods, and information, which are important to our economies and security; access to reasonably priced energy sources, including the development, transit, and safe use of resources—this interest is served by securing stability in the Gulf, multiple energy sources and pipelines, sea-lane security, technological development, and energy efficiency; development of other resources in conjunction with social and environmental safeguards, while managing disputes over territories and ownership; establishment of a sense of security for other partners in the Asia-Pacific, so as to avoid destabilizing and potentially threatening military competition or miscalculation; nonproliferation of WMD, especially to states or terrorists that will endanger regional and global peace and stability; and countering violent Islamic radical movements, while encouraging Islamic leaders who seek peaceful development with respect for religious beliefs. This identification of interests should be complemented by sharing of assessments of threats to those interests, and then perspectives on how to deal with those threats.

Yet these mutual interests, and even deep economic interdependence, could be overwhelmed by a failure to deal with differences in the Asia-Pacific. The challenge for United States and Chinese leaders is to use global cooperation as an incentive to reduce regional frictions rather than to permit regional tensions to undermine their global cooperation. China has an interest in the security of its coastal approaches, and in gaining influence in the Western Pacific. The United States has a network of alliance and partner countries that value the stability and economic security provided by America's presence. These alliance ties are important to America's regional and global standing, and that has reassured others. Therefore, China's relations with some neighbors, including Japan, cannot be separated from United States relations with China, or United States relations with its allies. At the same time, these United States partners, like the United States itself, value their economic, political, and cultural ties to China. Today, China's Asian allies are few, poor, unreliable, and often isolated. United

States allies are prosperous and expanding. If China's assertion of influence is interpreted as a threat to others, China will inevitably evoke a counter reaction. To avoid creating its own encirclement, China has an interest in building ties with United States allies and friends, not in increasing their fears. The United States and China together have an interest in fostering regional integration within a global system, without threats that weaken confidence or escalate tensions.

It seems that the countries of Southeast Asia recognize the mutual benefits of economic integration within a safe security framework. Yet, the differences over resource development are spilling over into fears about maritime security. None of the parties should have an interest in escalating anxieties or conflict. They should share an interest in negotiated, cooperative solutions. Northeast Asia, however, poses serious dangers. North Korea, with a failed economy and uncertain leadership, has used threats and nuclear weapons to demand assistance while mobilizing an isolated, garrison state. Its international trade, dangerous weapons, and illegal activities has created havoc elsewhere. North Korea has rejected the 1953 Armistice. It has used military force against South Korea twice in recent years, killing people and risking escalation that could slip out of control. North Korea has threatened preemptive strikes against South Korea and the United States while endangering Japan, and tested nuclear weapons and ballistic missiles that it could use to implement those threats.

China has traditionally believed North Korea offers a security buffer, but this is outdated logic. An invasion of China is not conceivable. Conflict precipitated by North Korea is increasingly conceivable, and certainly not in China's interests. When Dai Bingguo and I held strategic discussions in 2005 and 2006, I suggested that the United States would be content if North Korea became like China. And how could China object to that? Moreover, I pointed out that if the Koreans are ever unified, however the process, China would then have an interest in the United States retaining a security alliance with Korea. This alliance would reassure Koreans, who have seen throughout their history that their peninsula served as a root for the militaries of much bigger neighbors. If a unified Korea inherited a nuclear weapon, the United States alliance with Korea could be instrumental in persuading it not to become another nuclear power. A nuclear Korea would leave Japan as the only Northeast Asian country without nuclear weapons, a situation that would worry the Japanese. Moreover, I told Dai Bingguo that it was my expectation, contrary to some Chinese speculation, that a United States alliance with a unified Korea would be backed by air and naval assets in the south, not large land forces and certainly not troops on the Yalu River. In contrast, if the United States alliance with Korea ended, Japan might eventually be concerned about being the sole Asian host to United States bases and forces.

That was years ago. Chinese and United States strategists need to be having these discussions about security in Northeast Asia now, to head off dangers and prepare for a safer tomorrow. I suspect, for example, that one reason behind China's reluctance to press North Korea to end its hostile acts and begin reforms is a concern about being able to manage the process of change in North Korea. Perhaps South Korea, the United States, and others in the region could discuss the possibilities for change with China. While China may wish to avoid



considering this prospect, the reality is that a threatening North Korea could prompt responses by others that conflict with China's preferences for regional security.

Yet all of these substantive proposals for a "new type of great power relationship" are likely to be stillborn unless China and the United States remove a corrosive that is eating away at our trust and ties: cyber security. Cyber security anxieties take different forms, which compound the rising risk of confrontation. One dimension is espionage; a second is commercial espionage, which the United States and other sources believe is rampant, extremely costly, and destructive; a third is sabotage; and a fourth is a question of cyber warfare, and whether and how principles of war such as hot pursuit, collateral damage, proportionality, and unacceptable damage apply in this area. Decades ago, with the advent of nuclear weapons, security strategists developed doctrines and theories to manage the risks of mass destruction. I don't know whether cyber security lends itself to similar discussions. I do know that it is vital that the great powers of the 21st century discuss how they might deal with these issues, which could otherwise undermine President Xi's suggestion of how to respond to history's lessons.

There is a debate in the United States about whether China's concept of international relations can ever accept a system based on rules that support an integrative approach. Some, including Dr. Henry Kissinger, believe that China's view of itself as a Middle Kingdom only allows for tributary relations. The difference in perspective may reflect, in part, variations in experiences on economic and security issues. Economic policymakers have observed how Deng Xiaoping employed the international economic system as an enabler of dramatic internal reforms, and Zhu Rongji went even further, using China's WTO accession to import international economic rules and relationships. Similarly, China's economic relations and actions over the past 5 years of economic crisis have been generally cooperative. In my time at the World Bank Group I also saw China's support for, and willingness to adapt to, multilateral development institutions and issues prompted by China's economic rise. The experience with security topics raises more doubts, perhaps leading to the differences in perceptions about China's concepts of international relations in the 21st century.

The idea of a "new type of great power relationship" does not answer these questions, but it does offer us an

opportunity to explore various answers. It's not only China that brings us special historical perspectives to this task. The United States, although it is the established power, is not a status quo power. Many international observers are confused about this American quality. Commentators ask why the United States, the largest and most powerful country, doesn't simply want to preserve the existing order. One symbol of America's global engagement is the one dollar bill. If you look at the back of that bill, you will see a picture of the great seal of the United States. That seal that was approved by the United States Congress in 1782, includes a Virgilian motto: *Novus ordo seclorum* - "new order of ages." As my professor of diplomatic history pointed out long ago, much of American history is about whether this new order is supposed to be geographically limited to the just-created United States, or broadly applicable. In addition to security and power, and freedom of trade and dollar diplomacy, American foreign policy has at times sought to promote the principles of the 18th century enlightenment that were embodied in America's revolution. Today those principles are reflected in discussions about human rights and freedoms, but also in topics that China is debating, including good governance, limits on arbitrary governmental action, and the rule of law. The challenge of crafting this new type of great power relationship is intriguing. It involves much more than a new balance of power. China is a rising power, but one guided by many traditional views. The United States is an established power, but one that seeks change. Both the United States and China are highly successful economies, deeply interconnected with many countries and regions. Their relations will affect many others and the world.

I hope the ideas that I offered today at the Shanghai Forum will contribute to the effort to avoid the Thucydides Trap, and the exploration of a new type of great power relationship--perhaps even a subject of discussion for the two Presidents in June. This could be an exciting venture, and I look forward to hearing your perspectives. Thank you.

*(Edited from a shorthand record)*





■ **Fang Xinghai**  
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## The Wisdom of China Based on an International View ■ ■ ■

**D**ear ladies and gentlemen, good morning, welcome to Shanghai.

My topic today is a little bit different from the introduction just now, but almost the same in terms of the content. My topic today is The Wisdom of China Based on an International View. After the international financial crisis in 2008, there have been great changes in the world except one thing remaining unchanged--globalization, which has not slowed down because of the international crisis. What measures should China take in the context of globalization? If we want to answer this question, we must be fully aware of our strength at first.

If we talk about China from an international perspective, we will find out a lot of problems. If we focus on the issue of China, we will find endless topics to talk about. Recently, there are all kinds of manifestations of growth declines in our economy. For example, the central fiscal revenue from January to April fell for the first time over the years. In May, the manufacturing index published by HSBC just recently also declined for the first time.

Recently, I have been seconded to work in Beijing. Everything was good except one thing--air pollution which I was very worried about. It seems that many foreign friends here might have the same worry as me especially when you go to Beijing in winter. There are also some other issues in China. For example, some places are to establish some big projects in environmental protection because of the recent reports. There would be some marches or objections in the locality. Such a big country always has a lot of problems. But if we focus on the chance and focus on those we can do as a big country, we would find out that we can do a lot of things that other countries may take pains to

do or cannot do. So today I want to focus on my topic--the opportunities of China from the international perspective and talk about some things that can be done by China currently, but cannot be easily done or cannot be done by other countries at all. There are eight points in total: the first four points are related to the open-door policy of China.

Firstly, now China is in a very favorable situation of the open-door policy. Almost all the industries that we can subdivide, for example, automobile, chemical, elevators, financial service and so on, rank first or second in the world now from the perspective of incremental market. The result indicates that any large multinational enterprise, no matter in manufacturing sector or service sector, cannot give up the Chinese market. If it loses in the Chinese market, then it will be difficult to gain an edge in the global market. Such a privileged position allows China to attract the world's most competitive companies into Chinese market. If multinational enterprises are to settle in China and want to win in the Chinese market, they must bring their new technologies, new research and development strength and best manufacturing technology to China. Otherwise, it will be difficult for them to win in the Chinese market. This is a very big change. Several years ago, second-rate technology might gain a good market in China. But nowadays it is very difficult. A best example for this is General Motors (GM) and we know the best car of GM. When I was studying and working in America, people knew Cadillac, which was not so good then, but was liked by the young people of America. Japanese cars were more popular then. If Cadillac is to compete with Mercedes-Benz, BMW and Porsche in China's luxury car market, it must bring its latest research and development technology to Shanghai. Now

both its headquarter and production are in Shanghai. In this way, it can respond quickly to the need of the local market, design the most suitable car for the local market and produce more competitive cars at a lower cost. So I believe such trend will also occur in other industries. This is a great advantage of China. That's to say, some domestic enterprises can depend on the open-door policy which prompts leading foreign enterprises to bring their latest technologies to China through the competitive environment of the largest domestic market. I have many examples of this kind, but I will not mention them one by one for the sake of time.

Secondly, there are some things that China can do, but other countries cannot do easily. Our enterprises have many new advantages when they go overseas to participate in mergers and acquisitions, including building joint ventures with other enterprises. These advantages don't exist in other developing countries and they are reflected in three aspects: firstly, China is a very big market so that many overseas companies are willing to be merged by Chinese enterprises or to form a good strategic cooperation relationship with Chinese enterprises. Then these overseas enterprises can gain a bigger share in the Chinese market and take the money earned in the Chinese market share as a feedback of their competitiveness in the world and enhance their competitiveness in the global market. A best example for this is Volvo which is merged by Geely, a small automobile enterprise of China. Then why is Volvo willing to be merged by Geely? I think the reason for this may be that Geely is an automobile enterprise of China and Volvo may win a big promotion in its market share of China after being merged by Geely. The money earned in China helps Volvo to compete with BMW in the global market. If Geely was an automobile company of other developing countries, can you imagine "would Volvo sell itself to Geely?" I think the answer is "No".

There is another big advantage in China--the capital market. Although our capital market itself is not very developed, we have very strong financial strength and our overseas mergers and acquisitions have gain strong support in terms of capital amount from the domestic bank, if we dare not say in terms of service. This is also a very big advantage of China.

There is another advantage that many domestic enterprises have developed some technologies which is suitable for the domestic market of China, a developing country, so that they will discover their technologies in China can also be applied to other developing countries when they go there for mergers and acquisition. This will help them win the mergers and acquisitions overseas as a result. Take an example of the state grid. In recent five to six years, State Grid Corporation has conducted a dozen of large-scale mergers and acquisitions in Philippines, Australia, Portugal, Brazil and so on. There

is a great advantage for it. That's to say, the technology of State Grid Corporation is very suitable for the needs of such developing countries as Philippines and Brazil.

Thirdly, nowadays there is a very good and great chance for service sector, financial service, education, medical treatment and public health, service in consumption and communication in Chinese market. If we open to the outside world, I believe the best enterprises in service sector overseas will come to China. Recently, Prime Minister Li Keqiang has also said that our country has developed into a stage called "middle income" and there a rapid growth in the needs for service sector. If we seize the opportunity and open wider in terms of service sector, I believe we will attract excellent overseas service companies to China for business conduction. We should improve the quality of service sector rapidly. The promotion of service sector quality is different from that of manufacturing which would be improved if you introduce some equipment and employ several designers. However, if we want to improve the quality of service sector, we must introduce enterprises of profound operation experience, not just several personnel.

Fourthly, what we can do in respect to the open-door policy is the internationalization of Renminbi which I am very concerned about. Just now Mr. Robert Zoellick has said that China can participate in the formation process of global monetary system and the new financial system. When we talk about the internationalization of currency, I believe other countries are also willing to make their own currency become the international currency. But I feel that now only Renminbi is a potential international currency. Other countries say that they want their currencies to be the international currencies. Is it possible? Yen has tried, but failed. Ruble of Russia also wishes to become an international currency, but has it succeeded? If our country has a further consensus and we focus on the convertibility of Renminbi capital, in the near future, Renminbi, in a decade or so, is very likely to become at least a very important trading currency and then gradually develop into an investment currency in capital market and finally a reserve currency. This is also a very good opportunity for our country. From China, I have also mentioned something and now I want to mention four points that our country can do, but other countries do not seem to be able to do:

Firstly, our central government can issue long-term and a considerable amount of long-term debt. For example, we can issue a lot of 30-year treasury debt. To the end of last year, China's ratio of treasury debt to GDP is around 14%, which is very low in the world. Not all the countries can issue treasury debt as they like and many European countries now cannot issue treasury debt. But China has a very large potential in issuing long-term

treasury debt. Moreover, most of the long-term treasury debt is snapped up by domestic investors for the reason that we have enough savings and we don't need foreign investors to buy our treasury debt. If these long-term treasury debts are issued, it will bring a very good function. In the short run, it can stimulate the domestic demand to rise promptly on the ground that the capital collected from these treasury debts can be used in the construction of some large-scale infrastructure and many infrastructure constructions which should have been funded by the local government can be borne by the central government. We can also promote our social security system, medical insurance and endowment insurance system and we can invest more in education. This is the function to short-term macro-needs.

It also has an immeasurable function to financial market. Our country has a lot of financial market savings, but few investable varieties. If the interest rate of these long-term treasury debts issued reaches 5%, I believe many ordinary people will be willing to invest and then the risk is gone. This can also help to perfect the financial market as a whole and reduce the financial risk. This can also change the problems that now a lot of money is invested in shadow banks and other kinds of irregular financial products.

Secondly, if our simplified one-child population policy has changed, it will produce considerable benefits in China. There is one point of China different from many other countries which may own to the years of cultural traditions of our ancestors that Chinese people have a strong concept of kids and family. The difference can be seen especially in the group of high income or middle income, unlike those in other countries who are unwilling to give birth to children. I used to work at Shanghai Stock Exchange Center where I had a very capable female colleague who had been promoted to the department director of the center at the age of slightly more than 30. In order to give birth to her second child, she quit her job and chose to stay at home. You see this has caused a loss of human resources if our policy was not so simple. Certainly one-child policy is necessary in China, but if the policy was not so simple, I think this female colleague wouldn't have had to quit her job and she could work when waiting for the coming of the second child and this kind of loss wouldn't have happened. If our birth rate promotes, especially in the cities, the domestic demand is about to rise promptly. The needs brought about by the kids are very strong. In addition, we Chinese attach great importance to education and these children will become the stimulation of economic growth after a dozen years or two decades. I hope our senior policymakers will make an appropriate decision as soon as possible. Thirdly, we have a large amount of private fund waiting anxiously for investing in industries where private investment is forbidden. My hometown is in Wenzhou,



which is one of the earliest regions of the reform and opening-up policy. There are many small and medium-sized enterprises there which started their business in the late 1970's or in the early 1980's and accumulated some funds. Later on, due to a lot of reasons, these funds are not allowed to enter some industries, so "What can these funds do?" To invest in real estate property? To invest in speculation commodities? Or to invest in loan sharking? This results in a lot of financial risks in Wenzhou now. In fact, they have a strong will to enter the financial field, education and health field, and information service field. If these fields were open to enterprises, there wouldn't have been so many problems now. If these enterprises are allowed to enter these financial fields, it will help them to upgrade their industry in manufacturing sector and will also prevent them from investing blindly in some unfamiliar fields, such as solar energy, bio-technology and they won't suffer from failure in investment.

Fourthly, what we talk most is the urbanization in China which is confronted with a lot of serious problems. Certainly, this is not to artificially help the growth of urbanization, but to build a lot of buildings for urbanization. If we remove the population policy and registered residence policy which are the impediment in the normal flow of population and economic development, there will be more rapid propulsion of urbanization that is also suitable for the needs of economic development. This will result in a huge impetus to our domestic demand.

The eight points above are what we can do right now and cannot be done easily by other countries. When it comes to the opportunity of China, we should take a step back to see "what is the most powerful point of China's competitiveness in essence?" There are two points of China which are different from other countries:

Firstly, China has a population of 1.3 billion people who are willing to work hard if you give them some wage which is not so high. This cannot be easily found in other countries. In 1990's, I worked for 5 years in the World Bank when Robert Zoellick was the president

of the bank. I have also been to a lot of developing countries. I believe there does not exist a developing country which has such a vast territory as China and has such a labor market as China where everyone is hard-working. This is the fundamental competitive advantage of China. This advantage will be conducive to the competitiveness of China's export in the world in spite of the rising cost, rising labor cost and so on. Certainly the data have also proved this point though there may be some small mistakes in the data. However, I have heard that the export of China from January to April grew by about 10% after conversion.

Secondly, we are inherently very competitive. Our government is a government which is very concerned about economic development, no matter from the central government to the local government or the government of the district or county level. Our government is also a government which is very glad to help enterprises to develop well. I have also been a lot of places in the world and I haven't met a country which is more concerned about the economic development. This is also an advantage of us.

Of course, we have talked about so many advantages about China. Many friends would say there are still a lot of risks in China now. If there are so many risks, will China be able to display its advantage and realize the eight desirable things? Currently, President Xi has taught us to keep the bottom line thinking and we should have a thorough understanding of the problem as well as the risks. Have I talked about too many advantages to the neglect of risks? No, I do have taken account of the risks.

Economically, I agree to the two main risks in China now that you have talked about a lot: one is the risk of financing platform of local government; the other is the risk of real estate market. But I feel that we can well manage these two risks on the ground that there is land or property which can be used as the guaranty for these loans or other financings in financing platform and real estate if we think meditatively. If we are to deal with the risks in such a financing structure, the key point is time-for-space. That's to say, at first, you should slow down the new loans and new financing and cannot make them swell like previous years. Then you should not force your company to go bankruptcy because you can't pay off the loans of one company. What you should do is time-for-space or to delay through an extension of time or other financing options. The economic growth of China is above 7%. Several years later, with the advancement of urbanization, these lands, real estates and other assets will become valuable one day. When I came back from abroad in 1998, I worked in Construction Bank and the first thing I did was to participate in the establishment of credit assets management company. The situation then was worse than now and the bad assets ratio was more than 30%. The approach we adopted then was time-

for-space in the context of rapid growth. To the year of 2003, these seemingly worthless assets all became valuable later. Therefore, this is a great advantage for China in dealing with crisis. That's to say, we deal with crisis in the process of economic growth. Moreover, there is another great advantage for China in handling crisis. We have a large amount of state-owned assets which can be used in dealing with the crisis. This is a buffer for us and not owned by other countries. So I believe if we have a thorough understanding of these risks and find out a solution, we will discover that China has a solution to deal with the crisis. The key point is that we should not stop only to deal with the crisis and neglect the economic development. If so, we all will be done and there will appear a lot of problems. We need continuous development and we can deal with these risks in development.

You may have a question that the eight points I have talked about just now are closely related to the reform and opening-up policy. Then many of you would have a doubt "will reform and opening-up policy be further advanced?" I myself have full confidence at this point. I have talked about that Chinese government has been taking the economic development as its core task and now the economic growth is on the decline. As a result, our government must advance the reform and opening-up policy and accelerate the pace of reform. We can draw a conclusion that China would speed up the pace of reform and opening-up if economic development slowed down after looking back to the 30-year history of reform and opening-up in China. So you should not have any worry that China will slow down its pace of reform and policy in the current context of declining economic growth due to the vested interests.

To sum up, there are many problems in China, but we have more opportunities. As long as we have a thorough understanding of these risks, take clear measures and make good arrangements for these risks, we can stride forward to promote reform and opening-up and to stimulate economic development, and then to deal with these risks in development so that our economy will step into a new stage.

*(Edited from a shorthand record)*



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## Better Health for 4 Billion Asians: The Battle against Non-Communicable Diseases (NCDs) in the Next Decade

**T**hank you very much. We switch dears now and talk about all the wonderful food you are eating in Shanghai. So you see my title: Better Health for 4 Billion Asians: the Battle against the Non-communicable Diseases in the Next Decade. If you read that that title, I have already made my impact, because that is really my message. We have a battle coming, it's already here. I'm going to briefly set the scene for this battle, describe the battle and see how you are going to fight the battle. It's going to be tough.

So let me first set the scene. I came here first time 35 years ago. I think I saw in the street were bicycles and people doing Tai Ji, and there were no McDonalds. I'm going to try to use these slides. Let see how it goes. Here you see, as I set the battle, how Asia's changing. You can see the growth of national income is very different among different countries in Asia. While Japan, Singapore and Korea high, in addition Cambodia low. But we know that this region is the most rapidly advancing region. Secondly it's a rapidly urbanizing region, Asia. This shows you the top 50 cities in the world ranked by GNP between 2007 and 2025. And look how everything is moving east. The dark green is where most of the cities' GNP will be in 2025. The third change is of course the rapid globalization. Look at the increase; this is China in cars, colored television and computers. We are becoming westernized in Asia. Now bicycles, you see, they started down and then they came back up, that's just exporting of bicycles. That's not people riding their bicycles. The fourth, said in the scene, is the industrialization. This shows the deaths from the urban air pollution in the world. You can see the big cloud over Asia, in China alone; there were 1.2 million deaths as a result of urban air pollution in 2010. And the fifth change is the rapid aging; this is good for those of you over 65 in you audiences. You can see here, that in the red line. That the over age of 65 in Asia is

greatly increasing. By 2050, 20% of the population will be over 65 and 8% will be over 80. That's good news for many of you. So what is that mean? It means that, with the rapid growing economic situation, urbanization, globalization and industrialization and aging, we have the perfect context for the battle of non-communicable diseases. Now the second entity that setting that battle is the fact that this region is making great progress in reducing maternal and child mortality, which was the cause of death in this region just a year or two ago. Look at the decrease here; these are eight different Asian countries. Look at the decrease between 1990 and 2010 in maternal death. And here you can see the thin data for 8 countries under 5 mortality. Most of the decrease is US mortalities, because we have less children dying of infectious diseases.

But what we do have, but I should mention that there is a worldwide movement going on so that there are no death from children, no preventable death in children under 5 by the year 2020. This is the goal the world has set. What of course you do have here in the region is the Emerging Infectious Diseases. You know they have names like avian flu, SARA and AIDS and multiple resistant tuberculosis and malaria. These diseases, they don't cause a lot of death, but they do have an economic impact. You can see here that the SARS epidemic cost Asia 30 billion dollars. And I can tell you that the avian flu epidemic that you just experienced here, H7N9 has already caused you 8 billion dollars. But these are not causing a lot of death, these are more economic impact. So that's the scene we are up against and that's the scene of the battle. What diseases are we talking about?

We are talking about the fact that the non-communicable diseases are the leading cause of death globally. 65% of these deaths worldwide were attributed to them. the non-communicable disease globally account for 80% of the

deaths and 90% of preventable deaths in low and middle income countries. 25% of non-communicable disease deaths occur in people less than 60 and by 2030 globally these disease will increase by 50% in low and middle income countries. But I want you to see this map which shows you what we call the Disability Adjusted Life Years which is a combination of pre-mature morbidity and mortality. And the more red the color, the more the countries of the world are suffering in non-communicable diseases and have the greatest burden. So Asia certainly has the greatest burden of this disease. And if you look at the series of countries in Asia, this map shows you ten countries and it shows the percent of mortality from non-communicable diseases as a proportion of total death. And if you look at the left, in Myanmar Laos and Cambodia, it's 50 to 60%. If you look at, of course, Malaysia, Singapore and Brunei, it's close to 80 and 90%. But even in the so-called poorer Asian countries, the non-communicable diseases are the major cause of death.

Now there are three major ones, I'm going to briefly speak about: cardiovascular disease which is heart attack and stroke; diabetic and cancer, another one would be mental disorders. Cardiovascular diseases are the leading cause of death globally. 80% of deaths caused by cardiovascular disease occur in low and middle income countries. They cause twice the number of deaths from a combination of infectious diseases, maternal & perinatal conditions, & nutritional deficiencies. By 2030, almost 23.6 million people will die from CVDs, mainly from ischemic heart disease and stroke. This shows you the burden of these diseases in Asia, and I just want to point out here, this is by age group, across, this is Disability Adjusted Life Years. The dark yellow is cardiovascular disease. The light color is stroke. And what's very special about Asia is it has very high rates of stroke, compared to other parts of the world, for reasons we don't quite understand. This shows you the same disability adjusted life graph for diabetes. And what you can see here about diabetes is how young people are getting diabetes in Asia. It's not only a huge problem, but it's a problem in young adults. This shows you the story on cancer, and if you look here in Asia. In men, you can see this is the incidents in pink. That's mostly lung cancer. In women, in blue, the main cancer is breast cancer. So those are main cancers that we are seeing in Asia.

Now what's striking about this graph? It's how fast the problem of non-communicable disease has come. Here is China between 1990 and 2020, we are talking about the non-communicable disease in light blue. It's coming quickly and it continues to increase. This photo shows the main drivers. They are smoking and the diets that we eat. Regarding smoking, I want to be clear that globally there is no greater threat to the world's health than tobacco. You can see here that there will be 180 million deaths worldwide from tobacco by 2030. 140 million of them are in low and middle income countries. The deadly usage of cigarette in Asia is shown in this table. If you look at the middle column of men, 67% of men in Indonesia, 43% of men in China, 48% in Korea and 38% in Japan, I can keep going; these rates are very high. They are not quite as high in women. And the second problem, as I have mentioned, is our diets. This shows you the data of 10 years ago in mid 90s. You can see we are eating more pork, more milk and poultry, men and women, in rural and urban China. And we are taking

fewer greens as well. So that's smoking and diets.

But the third factor that's very important is that the major risk factor for heart disease and stroke is high blood pressure. What's the main reason for this high potential? It's salt intake. We should take 5 grams of salt today. The surplus of salt intake is severe in Asia. The salt intake is the main reason for heart disease and high blood pressure that we have in Asia. So what can we do about this? Well we have to move into prevention. And you can see here, we have four areas: Tobacco, Unhealthy diet, Physical Inactivity and Harmful use of alcohol. I worked a lot in Singapore. And Singapore had had terrible problems with smoking. It implemented the policy that banned all tobacco advertising which strictly sells cigarette with bold warning on cigarette pack and banned smoking for people less than 18 years. That has a dramatic effect on smoking. In the United States, you may know this, coronary heart disease has gone down 36% and stroke death rate has gone down 31% in the last decade, mostly as a result of the fact that many more people are aware of the importance of diet and exercise. Smoking rates have come down and therefore we have much less uncontrolled hypertension at cholesterol problems and we also had better treatments.

The other thing we need to do is we need to integrate our care for non-communicable diseases into existing patient regimes for other diseases. We also need a wide research agenda. Smoking and eating behavior is not easy to change, we have to do some important research, and we are delighted that Fudan Global Health Institute, which is a partner of Duke, was launched last year. We also have ourselves, at Duke, we are opening up a global health research center. In here by Kunshan, we will open up next year, a corporate of joint adventure. We'll study a lot with scholars from Fudan and elsewhere in China the problems of chronic disease and environmental health. Lastly let me say that for this battle to be won, we need a global movement. Asia cannot do it on its own. Many of you may know that for the past 15 years, we have had something called millennium development goals. These are eight millennium goals, and we were delighted that three of them, four, five and six involved health: Reduce child mortality; Improve maternal health; Combat HIV/AIDS, malaria and other diseases. And now the world is debating what should be the next set of 15 years of goals. The current thinking is that there will be development and health goals.

So my summery slide. Asia has declining maternal and child mortality, emerging infections though remain and will threat more to the economy than to the population so far. But most importantly, Asia faces a rapid expanding pandemic of non-communicable disease which presents major challenges for prevention and control. Asian governments should mount multi-sectoral responses, develop innovative, scalable interventions, and set appropriate policies. Private sectors should be a major partner in this effort.

*(Edited from a shorthand record)*



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## Monetary Unions Free Trade Areas in the World Economy



**T**hank you very much. It is a great pleasure for me to be here and to be a part of this excellent forum. I share with the other speakers that my subject is different from the others. I am using this title “Monetary Unions Free Trade Areas in the World Economy” just to emphasize the fact that these two issues are connected together, and that there is great discussion about free trade areas all over the world. It is a really big growth industry and I am very supportive of it. I think it has a big relationship with monetary unions.

I was, maybe this is a bit of an anecdote, but I was in Shanghai in 2001 at the time of the APEC forum at the Shangri-La hotel. I had a speech that followed George Bush's speech. It was a huge recruit room, and the aisles were all filled when he spoke – they weren't when I was there, but I still had a large audience anyways. I was talking about monetary unions in a way. Not free trade areas, nor monetary aspects (monetary cooperations) for the APEC, because at that time the APEC plan was to have a free trade area in APEC - a very large trade area - and I always thought that if you had flexible exchange rates in each country, movements up and down, it vitiates a lot of the major issues of the free trade area.

I put these up. These are different types of monetary unions, in a way. Some of them characterize different phases over the last century. We always have to look a little bit at history in order to try to see where we are now and to see how we are moving into the future, because there is usually a lot of lead time as the international monetary system changes. The bimetalism, when a couple of countries like France and the United States, fixed the price of gold and silver. But then the Civil war came and the US left it, and the Franco-Prussian war came and they left it, and so then countries moved to gold standards or silver standards.

But the gold standard was the rising one and there was a big movement towards the gold standard. So most advanced countries, except China, were on the gold standard by the time of the outbreak of World War One (WWI).

That had a big effect at that time because just a year before WWI started, the Federal Reserve System came into existence. (This is significant because) the central bank for a country had not just become the biggest economy in the world, but (also became) bigger than the next three (largest) economies put together. When that country formed a central bank, it gave it in-facto subsequently the power to determine the international monetary system, or at least to veto any other kind of systems that other countries may want to have. It took over from the pound sterling as the major economy in the world.

This is another look at these things. I don't want to go into this historical part but let's, just quickly. When the pound sterling *defacto* became inconvertible in WWI, the dollar became the main world unit of account. After the war, the dollar assumed a particle role, and a more important role than the pound sterling. Europe went back to the world gold standard. Europe and the world followed. That's what always happens. Whenever countries go back to a gold standard it creates a deflation. It did that after the Napoleonic Wars, it did that in every period in history. This was a likeness that created the deflation that led to the Great Depression.

The US Britain both went off gold and a year later the US raised the price from 20 something to 35 dollars. That became the basic framework, or source-price - the most important price in the world from 1934-1971. When 1944 came, the Bretton Meeting set up the rules of the gold standard. They devised a set of rules that



were subsequently modified and it turned into a dollar standard anchored to gold. Because the US dollar was convertible into gold for monetary authorities, it wasn't a real gold standard because it didn't keep the world price level in lieu with the fixed price of gold.

Wartime inflations - the Korean War and subsequent places - eventually made gold undervalued. Europe and the US had to sell about two thirds of their stock to gold. In 1948, the US had about 70% of the world's gold. In 1971, they only had about 25%. Most of that went to Europe. In 1971, *the reasons were quite clear for taking the dollar off gold*, because they didn't want to sell anymore gold, because they wanted to keep at least part of it there. And then the world broke up into flexible exchange rates.

But the flexible exchange rate movement wasn't in any way prepared - it wasn't a good system. Nobody in the history of economics *ever argued, nor was any treatise ever written, saying it was a good arrangement for ever country to have flexible exchange rates*. Yet, that is what got stuck in the system with the second amendment to the IMF and *to the management of flexible exchange rates*. This is the monetary system we have in place now. It is the opposite of the gold standard.

These are just some pages about the age of the pound sterling and how it transformed into the age of the dollar. This is a picture of it. These circles, or globes, represent monetary power and are more or less proportionate to GDP of the area. In 1918, 1919, Britain was the center of monetary power. But the biggest economy was already the US at that time. This is the way of the gold standard. All currencies were convertible into gold. Up in the left you see China. Mexico wasn't a part of this system; it was on the silver standard. Then, on just the eve of the war, London was still the center of the world capital market. When war broke out, capital rushed to London. The pound appreciated, but only for a few months, but then people realized that the pound was no longer the safe haven. And after a few months in, the dollar became the currency, That was waiting in the winds, so to speak. With the newly created central bank, and the Federal Reserve, it could change that. Well, the World War changed it - the ascending power. When I think of this shift in currency systems, I make a solar analogy - it's like our solar system. Gold is the center of it; the sun is this gold and the big center of gravity there. When one of the planets becomes bigger and bigger than the sun, eventually the planets and the sun itself will rotate around this planet. Jupiter, let's say becomes the biggest planet bigger than the sun itself - it'll become the center of this system. This is more or less what happened to the United States, especially after the Second World War - it had a super dominant economy in the world.

But the restoration of gold was a mistake - the people who did that hadn't studied history. They should have known that every time countries go back to - just as when countries go off gold or silver, they have inflation - and they go onto it, they have a new kind of deflation. So in the 1920s, this is the way it is. The United States was *defacto*. Even though it hadn't set up the gold standard, it

was the *defacto* center of the Bretton Wood meetings in Washington. But the gold standard caused the inflation and deflation of the Great Depression. It had the biggest cost to American tariffs. Then the *defacto* led to the great devaluation of the dollar in 1974, it created the dollar standard. It became the dollar standard, where the dollar was anchored to gold until 1971. The convertibility was not for the American people. The American people after 1933 were forbidden to hold gold.

The rest of the world could be on gold, but the United States was not. The system then was the US fixed the price of gold, and this price lasted until 1971. Other countries fixed their currencies to the gold-convertible-dollar. The 1930s brought war-clouds again from Germany - World War broke out. In 1941, President Roosevelt asked his treasury secretary to begin preparing for a post-war monetary order, and a world currency. The British, Americans and Canadians proposed plans for discussion and that's what led to the Bretton Woods meeting in July 1944. That's coming up the 70th anniversary. They tried to devise a monetary system. Theory sorta stumbled in a lot of different ways, but they got enough of it right so that they got a system that could last until at least 1971. No world currency had existed - Roosevelt had suggested for a world currency but they didn't do it, probably because 1944 was a Presidential election year and it wouldn't have been good politics, so it was dropped. The British plan didn't come into being. The American plan, the world currency, came out of it.

The twins - we have here Robert Zoellick, the 11th President of the World Bank, one of the world banks that had been created in 1974. At that little place in New Hampshire, Mount Washington Hotel, they set up like, or endorsed the, global monetary system that turned into - wasn't quite the design of the dollar standard. At the end of the conference, Secretary Morgenthau, secretary of the Treasury of the United States, in the concluding speech, he mentioned that this was the end of monetary nationalism. But that system broke down in three stages: Gold was first of all, overvalued by raising the price. It was equally valued, properly valued, and then it was undervalued. There was no mechanism to stop it, but - what I do want to say - when we came to flexible exchange rates, it undid that, it violated that speech Moregenthau had said - "this is the end of monetary nationalism" - because floating exchange rates was a way of getting back to monetary nationalism. Each country has its own currency and each country has its own inflation rates. So the flaws in the system - I don't really want to go into too much detail - there was a short period where we went back to a fixed rate to the dollar in 1971, until it broke up.

It was a pure dollar standard and no longer convertible into gold, so the US was effectively determining the monetary policy of the world, and Europe didn't like it because they thought it was too inflationary. Then George Shultz (the secretary of the Treasury of the United States), the Minister of Finance in France, and Helmut Schmidt (the Chancellor of Germany and the Minister of Finance of Germany) got together in June

and decided to break up the international monetary system and scrap it - let countries handle the inflation problem on their own. George Shultz, a good friend of mine, was a disciple of Milton Friedman, unfortunately, and Milton didn't really have a good sense of monetary affairs. Anyways, the system broke down because it was too inflationary for Europe because, well, this is what American policy wanted to have for itself, and that was the end of that episode.

Let's move to flexible exchange rates. Now, the world looks not so connected together - the globes are floating out in space and not circulating around the dollar. But, underneath it all, let's think. Now we have 188 members of the IMF - not quite 188 currencies, because 17 of the countries use the Euro. But just imagine what the world would look like if we had 170 or so separate currencies, separate countries, and separate exchange rates. There would be no coherency in the system. What made flexible exchange rates possible was that it never really came into being. The dollar served a role, still, because of its size as a unit of account of the system. So all exchange rates could be related to the dollar. If you had 200 currencies in a country, you'd find out you had 19,700 exchange rates coming, cutting across the exchange rates. When you get down to it, when you have a *numerare*, when you can find a *numerare*, you can get it down to 200 or 199 exchange rates, all based on that one. So there is coherency in it, but the rise in the European block in the 1970s, the crisis in the European monetary system, and then leading up the Euro itself - *all this* began to split that American unit of account hegemony block and began to undermine the dollar as a global monetary system. It split it in half, so it didn't work.

Here is the point I wanted to make - under the gold standard there were no systemic crisis. The problem with the gold standard was maybe too much going on or going off gold. But there was no basic problem with the system itself. Under the Bretton Woods System, there were national crises with it, but there were no systemic crises with it. But after the system broke up in 1971, when the dollar went off gold, you had floating exchange rates. Then you had a whole series of crises. I'll just put down the ones you remember.

Immediately, the oil crises - suddenly soaring when the dollar was taken off gold, just within a month after the meeting in the Smithsonian Institution in December 1971. The price of gold - when they were refixing exchange rates, they were still using gold, but no one was buying or selling it - they raised the price from 35 to 38 dollars. Within a month, OPEC had a meeting and raised the price of oil to the same extent - already you had in motion what was going to happen in 1974, and 1979 with those oil crises. And over that period you had a sinking dollar in the late 70s and a soaring dollar in the early 80s. That caused the savings and loans crises, and it caused the international debt crisis. It developed in countries that would borrow cheap dollars that were pushed into borrowing. Governments always love borrowing if they can borrow what they think is cheap. They have to pay back in expensive dollars later, and

Mexico was the one who first created that sort of crisis.

Then the exchange rates weren't stable, and there was the instability involved in that issue. Then the IMF Asian crisis, as it is sometimes called, happened. I have heard the term the "IMF Asian Crisis" first of all in Korea, where it was being called that. Maybe it's not fair to call it that to the IMF, but the cause of that crisis was that China had devalued its currency. It raised the dollar from 1994 from 5.5 RMB to 8.7 RMB. Then it was letting the dollar go down till it got to about 8.28, where it was fixed for awhile. But the important point, the socket point was, after the Mexican crisis, the dollar had gone down and the Yen had gone up to about less than 80, 78 Yen in April 1995. The next three years, the dollar soured against the Yen to about 148 Yen. It was this huge depreciation with the Yen against the dollar that rocked all those countries that were holding onto the dollar into the crisis. This was the cause of the Asian Crisis - it was instability of major exchange rates. Someone at the IMF must have realized this, but the IMF couldn't say this because the system was promoted by the IMF for flexible exchange rates.

The next one was the layman shock and the world crisis. Now it is strange, but what caused the great crisis - of course, we have the sub-prime mortgage thing that went on. In 2007 you had the meeting of August 7th and 8th of the central banks and the World Central Bank and the European Central Bank where they pushed out 95 billion dollars of new money in one day - a big record. Now it doesn't seem like too much with the numbers we get today, but this was a lot then. And the other central banks added up altogether, in those 2 days, added up to 300 billion dollars to solve the liquidity, immediately, the balancing problem of the major banks of that crisis.

But that wasn't the big financial crisis that came about. The big financial crisis came with the soaring of the dollar, and the dollar went up by 30% in the summer of 2008. The Euro was 1.64 in June '08 and in October it had fallen to 1.23 in August. That's why Europe, for awhile, escaped the crisis but the United States had it and it was shocked by it - it undermined housing and everything else.

The creation of the Euro aggravated the importance of swinging exchange rates. Before the dollar could still represent the mainstream. There were now two big blocks out there. Before the Euro, this is the way it looked. The creation of the Euro concentrated the monetary power of Europe. After the Euro, you had a big block out there. It was not quite as big as the United States, as the dollar. At different exchange rates it could be higher. When the Euro gets higher, it also gets bigger in terms of how we measure.

This created a major problem. Europe has got important strengths, and the Euro is a great thing. I was a big proponent of the Euro and of course I made the first plan for it in 1969. But Europe has got a lot of gold, but Europe has weaknesses now - you see lack of fiscal discipline, inactive welfare safe reforms that *aren't affordable*, and debt-GDP ratios that were over 100%

before they entered the Euro when the condition was 60%, only. Europe gave monetary stability but not fiscal stability. But now the important thing is what's under the system. There are six problems - these problems were pointed out in 2011 when France became the chairman of the G20. Nicolas Sarkozy enunciated what I call the 'Sarkozy Critique of the System' as chairman of the system.

He said there was excessive instability of raw material prices, excessive instability in exchange rates and lack of governance in the system. The instability in raw material prices came in that period I was talking about, with exchange rates in 2008. Remember when the price of oil went up to 148 dollars, then in 2-3 months it came down to 33 dollars. That shocking instability that we had never before had the world seen something like that. Euro split the mainstream in the world in half like that, and it now creates a problem for the system. Here it is, I'll show you this, the way it looks now. The consequence is that the dollar is less useful - it is not an anchor for currencies. Whenever China fixes its currency to the dollar, and China does defacto, China thinks it is fixing. But it's not fixing to the world economy yet, because when the dollar and Euro go up, China can have a crisis. What happened when the dollar went up against the Euro was China had been appreciating slowly, while the dollar was falling. They stopped that appreciating against the appreciating-dollar in the summer of 2008. They fixed it at 6.8 and it was fixed at that for a couple of years at that, because they couldn't appreciate against the soaring dollar. Fixing to the dollar no longer gives a country stability. This is the system now. As China grows it will become bigger, and at one point it will overtake the dollar in terms of GDP power. It won't have the financial debts yet. We need, Robert Zoellick and others, reform. Financial reform - that has to be the next big thing for China.

What we need to move toward and think about for the 70th anniversary of the IMF is to see what would be the root to restoration of the system. I might add that I read a really nice article by Robert Zoellick that was on a kind of call for a return to the Bretton Woods System. A kind of stability - I won't go into that but that's definitely along the lines of what I think we need to have.

To correct the defects of the system, the swings between the dollar-Euro rates, which are so big - together they represent 40% of the world economy. If you could fix that one exchange rate, the dollar-Euro rate, and manage that rate, more or less in a way, oddly enough as John Williams was arguing for about as an alternative to the Bretton Woods system - he argued for the pound, the sterling, and the dollar to be fixed. But the Euro and the dollar are the key currencies now, so stabilize the exchange rate of those. That means you have to do something about coordinating monetary policies. You can't fix it the way it was fixed under Bretton Woods where all the other countries fixed both the bottom and top limits of their currencies. Now you have sharing of the fixing and coordination of policies resulting from that.



Without going into detail, by the way, when in an instance as QE3 came into being last October, the Euro was a dollar twenty-one, and Europe would have participated. The benefit from that QE3 - if they hadn't let the Euro soar, the Euro soared to a dollar thirty-seven - if they had stabilized it, Europe wouldn't have had its secondary recession. There again we go into a problem - if you stabilize the exchange rate you have a new block there that represents a mainstream of the world economy, like the dollar was. What else do we need to do? Well policies, of course, would be needed. There would be several events.

We have to mention China. Let me conclude with this. This is China's exchange rate, the price of the dollar from 1978 on up. I guess the chart doesn't conclude there. Up until 1994, the big devaluation, that big movement up on January 1, 1994 - when the dollar went to 8.7 RMB. That came down and was fixed until 2005, until the spring at 8.28 RMB, and then there was a quick readjustment down so it could get back down. Now it's getting close to six again. China keeps its currency latent to the dollar. Once China - a gradual move - I think the new administration should move towards a greater consideration of making the Chinese currency more convertible. There's no reason why China couldn't be part of this and add to it, the dollar-Euro-Yuan area. And this system as it is now would look like that - 50% of the world economy by fixing the two exchange rates. And one of them, the Chinese currency is already fixed, so it is still just fixing the dollar-Euro rate. And you're fixing the problems of the system because you're restoring the anchor of the mainstream of the world economy, and it would go on into it. I won't but we could go on and talk about better alternatives, but that's ruining up my main message to get to a new system that would give us a currency on the world map, a global currency. I call it the INTORP? But whatever - it could be anything else, and that could be what I would do to help fix the system.

*(Edited from a shorthand record)*



### ■ Fan Yongming

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## Asian Development under BRICS Cooperation



**T**hank you for your introduction. To save time for polite formula, please allow me to start my speech directly. My theme is Asian Development under BRICS Cooperation. I will discuss from two aspects: one is the vitality of BRICS cooperation, and the other one is BRICS countries cooperation and their diversified development strategies in Asia based on first aspect.

BRICS countries have much diplomatic cooperation, but they have many internal conflicts. Therefore, it cannot be a long-term cooperation. We need to think about the long-term ship and validity of BRICS countries cooperation. I would like to propose my opinion and idea to share with you. We might need to consider three aspects of factors when measuring that if a country or national group can become a strategic force in international society. The first one is the internal stability; the second is its relation with external environment, which refers to the confliction or cooperation with current international system and traditional international relation. The third one surely reflects in the fact that if it can take effective counterbalance in local area.

Firstly, let's see the internal stability of BRICS countries cooperation. I think the internal stability can at least embody four common characteristics. BRICS countries not only have common characters, such as that they all want transformation and development, but also have common interest to the international society. There are two more important aspects, namely they have sent common voices and adopted common actions. No matter viewing from inside or outside, they show the four common characters. Firstly, let's view from inside, BRICS countries' cooperation mechanism and their interactive practical cooperation are developing constantly. When viewing from outside, BRICS countries have established effective dialogue

mechanism with existing international system and traditional large nations. Firstly, let's see the cooperation mechanism of BRICS countries. I think there has emerged such a development trend of joint promotion by government and civil society in BRICS countries. Viewing from government leading aspect, annual Leadership Summit and ministerial conferences of all circles, finance ministers conferences and central bank presidents conferences have been formed. Meanwhile, there are many working teams in charge of practical implementation works. There has been nearly 10 years of effective operations. Two more are formed based on this, one is the Think-Tank Union consists of civil think tank, and the other is Business and Industry Council which is composed by the most influential entrepreneurs selected from 5 BRICS countries to jointly promote the governance of BRICS. The participated 5 large enterprises from China are mostly private enterprises. One of them is even a high-tech enterprise located in Shenzhen with short history. That is to say the joint promotion by civil society and government is a common characteristic of the vitality and cooperation mechanism of current BRICS countries.

Secondly, we can see in many international occasions, no matter in the United Nations or the G20, or in other aspects, BRICS countries' leaders or ministers gather together to hold meetings to coordinate their positions and take a common stand with a common voice. As regards to some specific common actions, it's very pleasant to see that the preparation of BRICS Bank has acquired decisive development. I think BRICS Bank is not a substitution to the World Bank under the leadership of Mr. Zoelick, but a supplement to it, enabling developing countries to have more choices and giving the world more vitality. Meanwhile, BRICS countries also established a joint foreign reserve pool which not only helps to reduce the impact on BRICS countries by international financial risk, but also helps

stabilize global financial system. Furthermore, BRICS countries are promoting trade facilitation. All of you might know little about trade facilitation. Let me tell you a number. The so called trade facilitation mainly refers to the decrease of international trading costs. That means if the trading costs composed by our customs, our transportation and commodity inspection decrease by 1%, the entire world will get 40 billion USD of benefits. Considering the BRICS system, and different degree of bureaucracy in BRICS countries, the promotion of trade facilitation has significant meaning to BRICS cooperation. Meanwhile, in terms of the development of economy and trade, the growth of interactive trade among BRICS countries in last decade was 28%, nearly 1/3 every year. In past 10 years, the entire trade volume has doubled for 15 times, approaching to over USD300 billion, and this number might be closing to USD500 billion after another decade.

If we take a systematic view on the five Summits of BRICS, we can clearly see that the target system of BRICS participating in global governance has been formed very clearly. It can be concluded into 4 points. First, hope to establish a more democratic, fairer and more diversified international order; second, reform international financial system and establish a more stable, more predictable and more diversified international currency system; third, promote multilateral trading system to develop towards developed countries, and win-win cooperation among developing countries. The latest progress is that a Brazilian officer will take office of the Secretary-General of WTO. I think that with his background, he can do better to realize the balance and coordination on the mutual benefits between developed countries and developing countries under WTO such a frame than others;

And fourth, BRICS strongly advocates to make progress through dialogues, that means to actively solve such global problems as climate, energy and environment through accumulative method. Climate problem is the thing that every one of us has to face with. However, the promises and restraint to emission reduction actively proposed by BRICS on Copenhagen Conference play a significant role on solving global climate problems. I want to emphasize three opinions: 1. to govern and solve global problems by relying on existing international mechanism is far more than enough under the circumstance of outburst of global financial crisis and deepening of such crisis. Many problems cannot be solved without the participation of developing countries or emerging economies. Similarly, do not forget that every BRICS countries has maintained close economic, political and diplomatic cooperation with developed countries and developed economies when emphasizing the development of BRICS countries. Like Mr. Zoellick said in his speech, the problems need to be solved, or the negotiation undergoing between China and America is one point. The third opinion is that the international society must have a diversified consultative mechanism and cooperation mechanism. The UN G20 and BRICS make discussions and negotiations to solve the problems according to different topics and different



choices. All in all, we should not regard the cooperation and development of BRICS countries as the substitution to one international system by another international system. They represent different interests. And it is a problem of how to enable different mechanisms to coexist and how to acquire balance.

I want to mention the issue proposed by the Prime Minister Li Keqiang during his visit to India. He wrote an article on Indian newspaper. He sent a very clear signal to the world that China is the beneficiary and vindicator to current international operation and international system. China would like to jointly promote this system with other countries including India. I think this is a very clear presentation on the relation between the positioning of China and the positioning of existing international system by Chinese leader in the last ten years. The issue that China is the beneficiary and vindicator, and also the reformer to current international operation and international system proposed by Prime Minister Li Keqiang clearly illustrates China's stand and the stand of BRICS to the international society.

Speaking of BRICS cooperation, we cannot be indifferent to and ignore that there exist many internal conflicts and there are disputes on such aspects as political structure, economic development level and religious culture and even territorial disputes. But I think, based on common demands and long-term interests, BRICS must walk towards cooperation and development. Viewing from political perspective, as we mentioned just now, we hope to have democratized international relation and have the idea of multi-polarization and win-win cooperation for international relation. Meanwhile, viewing from economic angle, the ratio of BRICS in world economy has been rising constantly. It was 14% four years ago in 2008, less than 15% after another 20-30 years, BRICS will be half of the entire world economy. This will not only bring huge opportunities to the entire world, but also to BRICS countries. Meanwhile, when viewing from production factors, and such aspects as population, land, resources and markets, the capacity of BRICS might be larger than developed countries. Let me give you a number. Recently, Ernst & Young Group, one of the largest accounting companies in the world, conducted estimation on the population of middle class in China

and India. According to its estimation, China now has about 150 million of middle class, and this number has been increasing at a speed of 10% every year. This is the progress of China's urbanization mentioned by Director Fang. Every 1% of increase in China's urbanization, there are 1300 people come to cities from rural area, and they turn to be citizens from farmers. Therefore, viewing from long-term economic and political angle, we can get a clear conclusion that although there is fluctuation in the world's economy, such as fluctuation in macro economy and in exchange rate and export in all countries, of course including BRICS, these long-term factors decide the effectiveness of the development and cooperation of BRICS.

How is the vitality of BRICS cooperation being showed in Asia Pacific Region, especially Asia area? I have proposed a concept about effective regional governance at the beginning. To put it simply, it means a big nation or a big nation group can make full utilization of its economic and political strength as well as international influence to create or safeguard the peace, prosperity, safety and stability of its area. In this aspect, I want to emphasize another point. BRICS is never a pure individual nation concept. It represents a region, like Brazil and Latin America, South Africa and Southern Africa, and Russia and Soviet. It is closely related with Central Asia and East Europe. India is a big nation in Asia, so it has significant influence to the economic and political development in Asia. We can say each BRICS country represents a region, the model of a region's political and economic development or the bellwether of its political and economic development. On the Summit held in this March, BRICS created a very good example. The leaders from 5 countries invited the leaders from dozen of Africa nations to jointly discuss about how to promote the development of South Africa and the entire Africa. The same circumstance might occur in Brazil next year.

As a regional concept BRICS country, how does it show the diversified development of Asia? There are three levels:

Viewing from global point of view, the democratization of international relation advocated by BRICS countries

is a win-win concept which is consistent with the pluralistic development and economic integration of Asia. Viewing from regional level, I specially want you to focus on two highlights, or two focuses: one is RCEP, and the other is APEC. The so-called RCEP refers to that the countries participating in China, Japan and South Korea ASEAN include India, Australia and New Zealand. The participation of India and China enables the idea proposed by ASEAN to get actual support. However, this is not enough. We must also see that currently, the RCEP is reaching a consensus with American TPP. This is an important bridge for Asian economic cooperation recently. Indeed, China at least has many criticisms on the strategies and diplomatic intention of American TPP, but many scholars also recognize the rationality of TPP. The high-level free trade zone advocated by it might be a good thing to both China and India. Just now, Director Fang mentioned about the interactive role of reform and opening-up. Chinese reform and opening up require stronger external impact. APEC will be held in China next year. China, India and Russia will play bigger role on the platform. It's not a truth like everyone says that APEC has been ended.

In the end, I want to mention the Northeast Asia cooperation in sub-region. The Far East development and opening up of Russia is Northeast Asia cooperation. Now the Northeast Asia cooperation mainly involves with China, Japan and Korea. However, the progress is slow due to historical and territorial reasons. The development of Far East Region of Russia will bring new changes to the regional pattern of Northeast Asia. Furthermore, it is necessary to establish an Asian economic corridor composed by China, India, Myanmar and Bangladesh. This corridor will connect together the world's two largest economies, East Asia and Europe. Under such circumstance, BRICS countries will play a more and more important role in Asian cooperation of and the pluralistic development of Asia. Asia's diversified development and economic integration will constantly emerge new situations. So much for my speech. Thank you all.

*(Edited from a shorthand record)*



## Closing Ceremony Speeches



### ■ Andreas Löschel

Chairman, Commission of Experts for Monitoring Energy Transformation, German Federal Government  
 Professor and Head of Department, Centre for European Economic Research (ZEW)  
 Professor of Economics, University of Heidelberg

## The German Energy Transformation and Its Implications to Asian Green Transformation

Last week in Beijing, President Xi Jinping wrote that China will not pursue economic growth at the expense of environmental degradation. He thus reaffirmed the importance of balancing economic development and environment protection. For energy, this refers to balancing energy security, economic costs and the environmental effects of the energy system. The German government has started this discussion already at the end of the 90's – then there was a fundamental decision for an energy system based, to a large extent, on renewable energy. In 2007, we set up an Energy Climate Programme and in 2010, the German government decided on the energy concept for the German energy system. The energy concept of 2010 is a long-term vision that is describing a reliable, economically viable and environmentally sound energy supply as one of the great challenges of the 21st century. I am today here to talk to you as the Chairman of the German Expert Committee on Long Term Transformation, because the German government has often detected a certain process of science-based monitoring which will determine whether actual progress was as expected, or to what extent additional actions need to be taken. I would like today to talk about the state of this energy transition in Germany, the biggest challenges we face, and the lessons that can be learnt from the German experience.

If we talk about energy policy making in Asia, very often we will ask about nuclear power. As you know, the German government decided in 2011, after the Fukushima disaster, to phase out nuclear power. But I would like to mention here that this decision is much older. Actually, in 2002, the German government, together with energy companies, decided to phase out nuclear energy by the year 2023 – that is already more than ten years ago – only after the last election in 2010 was there an extension of the lifetime of reactors, but only for six months, because then there happened the Fukushima disaster, and right away





the German government fell back on its old decision to phase back nuclear energy by 2023. I show you here on the slide a picture of the nuclear capacity in Germany in 2010 and now in 2013. You can see now a lot of our capacity has gone in the last years, and if you look at the picture it is interesting that in history a lot of our nuclear power plants have been in the south where actually the local demand was located – the big industrial centers, the large consumers of energy. Power plants were there, and now they have been switched off, and that has caused problems that I will discuss in a moment.

So, I told you that this is the discussion, but it is not the whole of energy transformation, it is only part of energy transformation, because this whole concept is much broader. The energy concept has set up a list of targets and goals for German energy policy making: they consist of greenhouse gas emission goals (minus 8% by 2020, minus 20% by 2050), we want to reduce our electricity consumption, we want to reduce the energy consumption in transport and buildings, actually in the long term we want to decrease 80% by 2050, we also have targets for electricity consumption, and in energy consumption, the targets are 35% by 2020, and 80% in total energy consumption, and we ask for energy efficiency: we want to improve our energy efficiency by more than 2% per year.

Currently these different targets are reaching different levels; we are doing relatively well in renewable energy – renewables are already a large part of energy production. We are also on target as concerns our greenhouse gas emissions. But in other targets we are actually behind, for example in the improvement of energy efficiency, especially the improvement of energy efficiency in the building sector. So one of the lessons that we can learn from this approach already is that we have to look at the big picture – it is not only about the electricity – it is also about heating, it is also about transportation, we need a holistic approach that takes into account efficiency improvements, the increase of renewables and greenhouse gas production. So many key topics emerge from this discussion: how to deal with real integration with global energy supplies, how to preserve appropriate capacity for conventional power, how to foster energy efficiency, how to deal with energy storage. At the moment, energy storage is virtually non-existent in Germany; we can store electricity for fifteen minutes, no more. How can we adapt our power grid, how can we design institutions for the adaptation of the traditional system? If you look at the energy production in Germany, in the year 2011, you might be surprised because electricity is relying to a large extent on coal.

Almost 45% of energy or electricity actually comes from hard coal and from brown coal. Last year, the share of renewables was around 22%. But, any renewables are not enough to secure our targets. Last year, the share of renewables increased, but also the share of coal increased. Simply because the coal prices have fallen in the last few years, and coal was not punished by the emissions trading system. There was a cheap option, and the back-up capacity that is needed for renewables was therefore leaning on the coal policy, which means that if we want to achieve our targets of real reduction our renewables are insufficient to tackle emission. As I said, emissions increased in the last year, even though our share of renewables increased again, but then again I think there is a lesson to be learnt from this.

The main reason we were so successful in ending renewable energy was the 'Renewable Energy Sources Act'; this system provides long term fixed technology specific fuel tariffs and gives privileged access to the market and obligation for further connections. If you look at the framework of this, you can see that it puts very little economic risk on the nexus of renewable energy. We have access to the market, you only have to worry about use and not demand, and you only have to worry about the network connection that has to be taken over or provided by the grid company. If you look at the tariffs you can see that for photovoltaic energy for example the tariffs actually decreased over time, but for many other technologies this figure stayed at a relatively high level, consistently higher level in recent years, and actually did not go down as intended. One very relevant example to the discussions in China is that of offshore wind development. This is one of the discussions in Germany; we want to add ten-thousand megawatts of offshore wind by 2020. We are far away from achieving this target, and as a result of this we increased tariffs for offshore wind, because it turned out that this is a very costly technology – not many reductions in terms of the 'learning' of the technology over time – and therefore we increased our support for this technology, not decreasing it, so that the only technology that only showed large growth was the photovoltaic. This is not new to China, because Chinese suppliers lowered down the cost of photovoltaic panels, which has made it impossible now that the tariffs were reduced so fast in the last years.

So what was the result of all that? You can see that in renewable energies it led to a sharp increase in the share of wind and solar power, especially solar in the last years – it grew to over 32 kilowatts. I show you here a picture that shows you how this energy is distributed in Germany. Most wind power is in the north, and a lot of solar is in the south. But as for wind capacity in the north, note, demand is mainly in the south, and that is actually I think a situation that is very familiar to many of you from the China case. If you think about it – wind power – I show it here in three pictures. The left two show you the direction the wind is blowing in Germany, orange or red are places with a lot of wind, where you want to build your wind capacities, the second one shows you where these farms have been built (in the North of Germany), and China, you see in the right hand picture, is in green, where the wind is again located in the north and west of China. And you can see where the demand centres are – in the south, in the east of China. So as in the German case you actually create a situation where you have large distances to transport your electricity if you rely on renewables. So you have to think about how these supplies in the north are linked to demand centres in the south and in



the east. This is a major challenge or grid investments, and we face this challenge in Germany as well – it is a big challenge, not only a financial challenge but also one of acceptability. People are very critical to great enhancements in the transmission grid – it is very very difficult to build in Germany, and we need a lot of these grids to transport energy from the north to the south, so I would think that this is something that you will face in China, to move these renewables from the centres to the areas of demand in the future. As I said it is something we will see – there are increases in distances that not only concerns transmission grids but also distribution grids, in Germany what we have done is we have given a lot of power to the regulator who regulates extensions, and they have developed the next development plan to design grids for the future. And this has turned out to be a relatively successful approach, and something that might be an interesting case study for other countries – here grid development plans were developed in corporation with the transmission system operators that propose new grid developments in accordance with some assumptions about developments in renewables, investments in terms of size and location, and then these development plans were agreed upon in a financial scheme and its priority projects were then granted by the government, and for this procedure they wanted to reduce the total time for building this new grid since in Germany grids take more than ten years, much more than ten years to build, which means we place a long timeframe that we have to address if we want to get ready for integration of renewables.

Another problem that is an issue in the transmission of renewables that might be an issue for China or for Asian countries is that of moving directions [i.e. shifting proportions of energy production]. Now China is about 9% renewables, but if you look at higher and higher shares the question really becomes about installed conventional capacity, and of course you need flexibility for renewable energy because we have times where you have no contribution from renewables – when the wind is not blowing or the sun is not shining – and we have that in Germany from time to time. If you don't have storage, then you need additional capacity and that is an issue that is more and more critical in Germany because the economic situation for conventional power plants has been getting worse and worse over time. Because of the subsidised use of renewables, conventional power plants are no longer an economically attractive investment – they are running with losses – you can get a lot of renewables on the market and the prices of electricity on the wholesale market are decreasing over time because of this addition, which means that oil and gas power plants are getting less and less profits – that is something we have to address in Germany. We are happy because we are getting out of a regulated market with a lot of capacity for escalation – this is something that helps us now, but as I say we have to think about how to deal with conventional power sources. Let me lastly point out some things on electricity prices. I have shown you here three pictures – electricity price for households, industry and the expenditure of households on energy in Germany. If you look at the electricity price for households, you can see some increase in the cost of generation (the blue part), but a lot of these increases have come from renewable energy (the yellow part). In fact most of the increase can be allocated to an increase in the tariff in renewables – it now amounts to 5.3 cents per kilowatt hour, and total energy cost in China now stands at 28 cents per kilowatt hour. It is therefore the

second highest price for electricity in the world. And that is only the case for households. As for prices for industries, they are increasing; you can see that this causes a lot of concern on behalf of German industry as regards their competitiveness in places with less support for renewables and less environmental policies in place. That is something that has to be taken into account seriously because it is not that we want to be endangering the acceptance of energy transformation – if the prices are too high for the households then people are not willing to pay additional expenses, and if prices are too high for industry it will cause the loss of jobs in Germany – and if so we will have to balance this.

Let me finish by giving a few concluding remarks. I said that this energy law and the phasing out of nuclear power is [to be completed] in around ten years, but not a lot happened in the last ten years. Only in the last two years did we take a lot of measures – after Fukushima this was really accelerated – but we lost a lot of time after 2002 in implementing policies. I told you that there are still many problems (I have not talked about the building sector for example, or the transport sector, all areas where we have to do more than we do at the moment); I told you that we have issues on energy issues concerning the instalment capacities, and it is the case that the renewable energy has to be developed and that we need a comprehensive approach – we have to deal with this issue and develop as well flexible schemes for renewables. Under our scheme we get a 20 year fixed payments – it is a very defensible scheme and a very costly scheme, and if you are China for example you have to introduce tariffs, and if you want to do more of it you have to make sure that it is economically sound and flexible and to be trusted for the future, otherwise it is sure to be difficult to cope with the costs. The Shanghai Forum is based on Asia's Wisdom, as the Chinese often say, 'the ten fingers are different in length', that is there are different views and approaches to solving our problems, but I am convinced that the corporation between China and Germany in this moment is beneficial to both our countries and I am very much looking forward to helping in the future. Thanks a lot.

*(Edited from a shorthand record)*





■ **Hélène Rey**  
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## Financial Developments in Asia



**T**hank you very much. Distinguished guests, Ladies and Gentleman, it is a great honour and a pleasure to be here in this famous university. Now my six year old daughter is learning Mandarin, but I will not try my Chinese on you. I shall discuss financial developments in Asia, and will focus on a few currents in this very broad and interesting development. First of all I would like to review the full extent of the effects of the Crisis on financial systems across the world in the context of relations between the China and Europe and the United States, in particular, and then I will have also a full discussion about international currencies and in particular the role of the US and the dollar in the international monetary system versus the future role for the RMB.

Now we have lived through extremely interesting times. We have faced a crisis that has been, in its magnitude, both on the real economy but also through its shocks on the financial system – we have faced a crisis that was quite unprecedented in, for a long time. In fact we have to go back to the Great Depression, to the 1920s, to have anything similar in terms of a financial shock. 2008, back then when policy makers around the world were making agreements, there was a strong feeling of panic, as we were actually observing that the data on the crisis, data on goods and services, also data on economic growth were actually plunging at a speed and rate that was larger than what happened in the Great Depression. So there was really a widespread and common fear among policy makers at the time, expressed on various occasions that something, some enormous policy response had to be made in order to face up to this big shock. What I have on the slides are just the growth rates of the economies through this period, when we see this amazing slump in all areas of the world as well as the effect of the slump on global trade and Asian imports. It was a great shock, as I say, and we really have to go back to the Great Depression to see anything of this magnitude. Now, in some parts of the world, indeed in my part of the world,

in Europe, when we look back and try to analyze what happened, the more we think the more we have the feeling that a lot of it has to do with trade growth, a lot has to do with the failure of financial markets and capital growth in the middle of the Crisis. This is something that international economists, such as myself, have known time and time again through studying emerging markets but also, more recently, advanced economies. In fact, the role of existing credit growth, existing liquidity of credit, also of capital growth and we sometimes call speculative bonanzas plays a very important channel in the middle of the crisis and in this time. When international liquidity is [hot], which is still the situation, which is the situation we were in, say, from 2003 and through 2007 (but we still face stronger challenges even now), international liquidity and speculative flows are large, they are subject to great and sharp diversions which will upset our stock and can lead in some markets to asset prices We talk about bubbles, in particular in real-estate markets – these are particularly damaging, and we have seen that over and over again, a global cycle of capital flows in the world economy, we have seen periods where international liquidity is really abundant, and we have seen asset price bubbles forming and devastation once they burst, especially when in real estate markets.

Now bank lending plays a very important role during this period because bank lending cannot be particularly cyclical as opposed to more direct investment. So what we have seen in particular in Eurasia and Europe more generally is a lot of flow going from countries with massive savings, private consultants, into what we call the periphery in Europe which are southern Europe economies in particular, and which have lead to real estate investment booms and increasing competitiveness and eventual meltdown. So this boom-bust cycle is in many ways actually reminiscent of what happened in Asia in 97/98, if you go back to the Asian Financial Crisis in Thailand, The Philippines, Malaysia and South Korea, during that period we also had boom-bust



cycle with inflation as prices shot in real estate, prices shot in the growing of capital and eventually collapsed along with a collapse in the exchange rate, and with many peoples' price sheets were in dollars, including corporations, eventually bankruptcies. So this pattern is not new, it has repeated itself over the centuries, in fact there is an interesting book reporting that time is not different, no, it is the same eight centuries of financial folly the same history when we talk about financial flow and financial crises. However, this time might be a bit different for Asia, fortunately. Here what I have is a map with prices during the current crisis, between 2008 and now, we have seen a number of financial systems. If you are in red in this map it means you have gone through a crisis – if you are very red it means you have been through a systemic crisis. You don't want to be very red on that map! As we can see the geographical location have been mostly towards the US and Europe, in particular you can see Iceland, the UK, Spain, Italy, Germany (which had some banking problems), and we see that Asia has been spared. The second interesting development during this crisis as opposed to the crisis of 97/98 is that actually the external signs of the thing are quite different. So in 97/98 there was a lot of external borrowing, by S. Korea, Indonesia, so we had large deficits prior to the crisis, we had overheating economies fuelled by growth and capital flows, but with a deficit, when you borrow from the rest of the world in order to consume, invest, to buy some more real estate. And then prices usually go through a very sharp adjustment downwards, so we see that the current surpluses have to turn towards zero or have to turn towards a surplus even, as there is massive capital flight. And this is what happened in Asia, with massive effects on the exchange rate, during 97/98. However this is not what happened this time, or not that much, so the adjustment in 97/98, you see that the economic deficit became massive surpluses in countries, in Vietnam, Malaysia and Thailand et cetera, however if we look at the existing crisis we see that nothing like that happened – actually it is New Zealand here that has the biggest adjustment, whereas if you look at South Korea or China it is a negative side – we do not see any adjustment at all. That also means that the Asian economies have been more resilient this time round.

This message we can also show in a map. We colour-code this map so that you do not want to be too red. If you are in the green, it means you're doing better. Here, how do we explain the Asian financial system during the current crisis? Well, if you look at credit growth, as I mentioned it actually

grows very well, it fuels real estate bubbles and other bubbles as it did during the current financial crisis, and here you see again that it is red in the United States and Europe, which might be the centre of the excess credit growth zone, whilst Asia is, again, relatively sheltered from this. The same course can be mapped in current account deficits, so this measure of borrowing, how much have we borrowed from the developed world? If you borrow too much, after a while it becomes unsustainable. We have this massive capital flight and adjustment, to places like the United States, to places like Latin America, during the 80's, to places like Russia to some extent in 98. We have here what we can see large current account deficits – if you look for them you can find them in the US, you can find them in some of the European countries – Spain, Portugal, Ireland, Greece – however, Asia is on the other side of this. Similarly, you don't borrow too much and you don't build up too much stock of your own debt, and this is therefore no surprise that this other graph is telling you the same story. If you look at the net national debt and the stock of liabilities that you owe to the external world, we see that again the US and some countries in Europe are in the red, whereas we have much less economic liabilities in Asia.

So all these factors put together may explain the resilience in the current crisis, why this time it was actually so much different in Asia. However I think one really has to fight hard not to be complacent with these issues. It is again a lesson that we learn that when there are big financial cycles one has to monitor extremely closely credit flows and capital flows. And the development of financial markets in Asia, which I will talk about in a few seconds, as for this it is likely that there will be more to be said in the future for the liberalization of various capital accounts, that there will be more pressure for the opening up of capital flows and more pressure which will be entering into China, for example. So I think what this crisis is that this boom-bust cycle in asset prices, in credit, was not really something that was only for developing models – it was not like Latin America during the 1980's, it was like the Asia of the 1980's, but it was something that applied to everyone. Even if one thought one had good regulations, actually it was not so. I think one of the main lessons of this crisis has been that central banks had forgotten their role of financial stability and had focussed too much on inflation targeting. If we think about how to intervene when there is excess credit growth, when capital slows, when we see asset prices getting out of line, I think that it is very important for central banks around the world, and that applies especially for countries that are on the way to liberalizing their capital accounts, such as China, it is very important to act quickly when they see excess credit growth, when they see a real estate bubble forming, and not to wait to be sure that you are in a bubble situation. In other words when you see a messy bubble like in Spain or Ireland, if you wait and if you see crisis that have gone on for five years or even ten years, you will be sure that it is a bubble but you are going to be too late. So central bankers have to act as soon as they can establish by doing what you call 'stress testing' on a financial system, that is stimulating some shocks on the balance sheets of financial intermediaries or on companies, simulating the effects of a shock and seeing

if reasonable shocks, those that could have been, with some degree of probability, which is not too out of line with the past, then balance sheets could be put in danger by too much growth in asset prices. This is something that governments were not doing in the developed world, in development towards the crisis of 2007 – they were focusing on inflation targeting and they were not testing the balance sheets of financial intermediaries, with the results we had other problems also.

So why do I think that it is especially relevant for Asia and for China to think positions is because if we look at the current situation of the Asian financial sector it is still small as a share in absolute terms of the financial sector in the whole world, because it is starting from more or less a low base, though it is growing very quickly. So if we look at the share of Southeast Asia and Indonesia in banking system assets, the pie chart right here, we can see that they are still quite low really, indeed for much of Asia in the world – however if you look in terms of percent of global demand of some of the financial sector market developments you see that there has been a recent and rather big increase, but I think what is interesting recently regards what is happening in Asia is that the financial sector will be growing very quickly in the coming years. Here I have this striking chart of the daily turnover of over-the-counter interest derivatives, and if you look at the growth of the derivatives, you will see there are many scales here. On the left scale you see the day turnover of derivatives for the global market – it is a huge figure: three trillion. Three trillion goes toward derivative trading. Asia is a lot smaller – it is the red line, only in the region of 150 billion, but you can see the rate at which it is growing is extremely quick. All these concerns that are in the face of the European and American financial system are becoming increasingly relevant for the Asian financial system and in particular for China, and will be in the coming years, and so one must look ahead and not forget the opportunity which the central banks had forgotten from 2003 – 2007, and before.

So looking forward, indeed the share of the Asian market in the whole world is still small, though it is growing quickly. Now what does that mean for the international monetary system? Now it is pretty clear that if we take measures now of what is the main international currency or practically everything related to foreign exchange, pegging and currency in terms of issuing financial assets, of course it is the United States, it is the dollar. The dollar has inherited this position since the Breton-Woods agreement of 1944 and it has a well-nigh monopoly on international currency. However, as we have seen in this story, with the transition between the pound sterling and dollar some time during the 20th century, when the economic size of a country is growing and growing in the world economy and when the country becomes a developing power, like the United States did and effectively took over from Britain some time during the twentieth century, between the World Wars, it does not happen quickly because there is a lot of inertia built in to the structure of international currencies. But after a while the currency of the trader tends to replace the former [dominant one]; we have seen that with the U.S. dollar replacing

the sterling, and we can conjecture that given the trend in the real economy it is reasonable to think that at some point the Yuan will effectively be a challenger to the dollar. However there are a number of international steeples for the RMB. The first is that of convertibility expectations from capital accounts – you cannot trade the RMB freely, you cannot have differential prices. The second is the lack of a large liquid efficient market. The third is still a lack of infrastructural [maturity] in the financial sector. So if we look at the moment as regards the internationalization of the Chinese Yuan, we are still at a relatively low base, with new offshore markets that you know about and a very small amount of global foreign exchange transactions. The London trading for RMB occupies only a very small share of all currency trading. The RMB enjoys a relatively minor status as an international currency. We see more of countries pegging to the RMB, though this still is relatively minor. So we are still not there in terms of a challenge to the role of the dollar; however, if a number of things happen, if we have an even more efficient currency and financial market, more liquidity in our markets, open to non-residents in particular, then we would have a very solid effect on the internationalization of the RMB.

Now, to conclude, I will therefore say that this crisis was a very and is still a very serious crisis. It is comparable only to the Great Depression. Maybe for the first time we saw that Asia managed to be sheltered, not completely of course, though usually emerging economies are much more vulnerable to crises – this time around we saw a different pattern. I believe this is linked to the pattern of current accounts and capital growth, I also believe that given the current trend in the current world economy there are huge opportunities for financial sector development, in particular in China. This should be monitored very closely to avoiding repeating the mistake that the advanced economies made and which led to the current crisis. Above that, together, once there are institutional changes and policy changes made, I think that the Chinese currency will certainly become a major international currency, however if history is right this will not happen tomorrow. Thank you very much.

*(Edited from a shorthand record)*



## Closing Ceremony Address



### ■ Park In-kook

President, Korea Foundation for Advanced Studies, Korea

**D**istinguished guests, ladies and gentlemen, We are now about to wrap up the Shanghai Forum (2013). When this unique conference was launched in 2005, everyone was implicitly aware of the historical significance of this bustling cosmopolitan metropolis we call Shanghai. Over the past century, this city has served as a bridge between the East and West in many ways, consistently serving as a symbol of merging cultures and a showcase of creativity through diversity. I think our Shanghai Forum attests to this marvelous heritage of harmony.

I hope this gathering will also continue to promote the power of ideas in pioneering new horizons for the future with the academia at the core. After all, breakthroughs and innovations cannot happen without ideas. As the French writer Victor Hugo wisely observed “One can resist invading armies; one cannot resist an invasion of ideas.” Continuing this tradition of upholding the intellectual power of humanity, the English writer H.G. Wells has said “Human history is, in essence, a history of ideas.”

This year’s gathering was especially important given the fact that international society is met with prominent transitions due to leadership changes in major countries such as China, the United States, Russia, Korea, and Japan. It is high time for top thinkers and scholars to meet and share wisdom

so we can reinforce cooperation and a sense of community at this juncture. During the past three days, I hope all of you had ample opportunity to voice your candid ideas and share them with the other participants from thirty-three countries and regions.

Our forum raised timely and significant questions on the Asian economic miracle. That is: has the Asian miracle come to an end? Can we revitalize the so-called “dragons” or “tigers”? We have addressed this important question as one of the key topics this year and I, myself, was very curious about the answers.

Also, the Shanghai Forum is one of the best venues in the world where financial concerns are always highly prioritized. This year, we were lucky to invite world-renowned financial specialists like Prof. Rey, who made great contributions by bringing their professional expertise and insightful foresight. I hope this year’s debate will further raise the stature of the Shanghai Forum.

With regard to East Asian economic integration, many people seem pessimistic about the feasibility. People usually compare East Asia to Europe and point out it has too many differences rather than similarities. However, we must remember that cynicism on regional coordination was rampant even in Europe in the 1950s when the prospect

of integration seemed a non-sense in light of time honored hatred and distrust among then European adversaries. Instead of modeling after the West, we must be cautiously optimistic and focus on what makes East Asia unique yet cohesive. In this sense, intensive debate on legislating principle of the contract law during this year's forum could be a good example of a silver lining of intensifying coordination of integration within the region. We must continue to encourage finding common denominators that could be building blocks for our region. Whether we like it or not, I'm sure we're entering a new era of integration rather than division. We should focus our energy in finding what we share in common instead of finger-pointing how different we are.

Since 2008, there have been serious debates and research on global crises in the areas of energy, environment, food, development, urbanization, finance, and even the integration in the Eurozone. Especially, urbanization, health, and environmental issues are the more urgent challenges in Asia than any other part of the world. These alarming issues are exacerbating various existing crises facing the Asian community. While we all agree there are many challenges, we must think what constitutes "crises". Rather than being scared or intimidated by difficulties, we should squarely face the reality more objectively. Only then, will we be able to decipher what is surmountable and what is a real crisis. I hope the Shanghai Forum will persist in examining critical topics each year and propose guidelines to serve as a watchdog of our community.

Taking this opportunity, I'd like to make a suggestion for establishing a wrap-up session to hear what has been discussed and what kind of conclusions were reached on the respective topics during our forum next year. To prepare for the wrap-up, appointment of rapporteurs might be an option to consider so that they could make a final report during the closing session.

I wish to thank all of you for attending this forum and arduous contributions. SK Group and Korea Foundation for Advanced Studies are extremely proud of contributing to the prestigious Shanghai Forum and bringing co-prosperity to Asia that had been overshadowed in the past century. My special gratitude should go to Chancellor Zhu Zhiwen, President Yang Yuliang, and other excellent staff at Fudan University for their impeccable organization of this wonderful platform of leading thinkers. I would be remiss if I forget to express my special appreciation

for the great work by Vice President Lin Shangli and Prof. Zhang Yi for all of the arrangements, particularly the opening banquet two days ago at a wonderful venue reminiscent of the flavor of the late 19th century Shanghai.

(Finally, I wish to end with a line from *Lí Sāo*, the epic poem from the Warring States Period.)  
我想用屈原写的《离骚》中一句诗，来结束我的闭幕辞。  
路漫漫其修远兮，吾将上下而求索。

The way ahead is long; I see no ending,  
yet high and low I'll search with my will unbending.

Thank you.

*(Edited from a shorthand record)*



## Interviews with VIP Guests

During the Shanghai Forum (2013), the Organizing Committee invited well-known professors from Fudan University to make in-depth interviews with VIP guests of the opening and closing ceremony in order to elicit their insights of their respective research areas and on Asia's future development.

VIP  
INTERVIEWS

## We Are Again in A Position Where We Don't Have An International Monetary System

### Robert A. Mundell

Professor of Economics, Columbia University. 1999 Nobel Laureate in Economics. He has been an adviser to a number of international agencies and organizations including several governments as the United Nations, the International Monetary Fund, the World Bank, the European Commission, the Federal Reserve Board, the US Treasury, the Inter-American Development Bank, and companies and institutions throughout the world.

■ Interviewer: Lin Shu (Professor of Economics, Fudan University)  
Editors: Robert Orr, Che Rui



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The creation of the euro area developed a monetary bloc comparable with that of the USA. China's growth also suggests that it has the potential to be equal with the dollar area and the Euro

**Lin Shu:** What do you think of the current international monetary system and what is your view about the future of international monetary architecture?

**Robert A. Mundell:** Let me begin by mentioning the fact that 2014 is the 70th anniversary of the Bretton Woods conference in July 1944, when economists got together to work out a post war monetary system. Because of the setbacks in the 1930s and the second breakdown of the gold standard, they needed to plan for the future. Although this was during the World War II, they managed to set up a postwar system which fixed the price of gold to the United States' dollar and other currencies. There were a few mistakes and the system worked quite well for a while, but it was eventually replaced with a new system using managed and flexible exchange rates.

Today, we are again in a position where we don't have an international monetary system. The Bretton Woods system broke down in 1971 when Nixon took the dollar off the gold standard so that the dollar was no longer convertible to gold. Other countries took their currencies off the dollar too. Shortly after that, they went back to a fixed exchange rate system based on the dollar in the Smithsonian institution in dc. This system didn't last long. The pure dollar standard was a pure exchange rate, but there was no agreement on how or who was going to determine the inflation rate. Before, the amount of gold was able to determine all this, but the USA's monetary policy would determine settlements, but there was little agreement on this because the Europeans thought US monetary policy was too expansionary for Europe and they didn't want to appreciate their currencies in this way.

So in June 1973 it was decided to scrap the international monetary system and let fluctuating rates come into being. There was no agreement on it. Europeans wanted to get back to a fixed exchange rate system, and other small countries wanted to too. Eventually, there was an amendment to the

area. So now we have to sit down and consider what the best kind of monetary system is that will be suitable for an upcoming and emerging new system of different structures and political power configurations. We have an opportunity to make a new and better system to replace the current one and the defunct ones of the past.



International Monetary Fund's Article of Agreement, so now we have a new system of managed flexible exchange rates.

The creation of the euro area developed a monetary bloc comparable with that of the USA. China's growth also suggests that it has the potential to be equal with the dollar area and the Euro area. So now we have to sit down and consider what the best kind of monetary system is that will be suitable for an upcoming and emerging new system of different structures and political power configurations. We have an opportunity to make a new and better system to replace the current one and the defunct ones of the past.

**Lin Shu:** The post 1970s system seemed to work quite well till recently. It is also quite strange that the current problems are not related to the traditional dilemmas, but are more related to the recent financial crises. What are your thoughts on this?

**Robert A. Mundell:** From a mathematical perspective, the idea that every country in the IMF can use their own flexible and managed exchange rates, their own monetary policies and their own separate rates of inflation with no connection between them is completely ridiculous. There are 188 members of the IMF, 17 countries in the euro area have only 1 currency, and that means about 171 countries in the world each have separate fluctuating exchange rates and independent prices. There's no possibility of finding common prices, nor a cheapest market. There's thousands, millions, of cheap prices to cope with. It's been partially successful because the dollar has been serving as a global unit of account.

Despite this however, a series of systemic crises have continued to impair the international monetary system over the years. There was the oil crisis in the 1970s and the international debt crisis in the 1980s, which was when Mexico and other Latin American countries defaulted. There was also the savings and loan crisis, the Asian crisis in the 1990s, and now the most recent international financial crisis. Each of these was caused by big changes in exchange rates. The one in the 1980s was caused by a combination of the dollar going way down, and the European currencies soaring. The developing countries borrowed a lot when the dollar was low, but then they had to pay back increasingly high prices that bankrupted them and caused the crisis.

The Asian crisis was initially caused by the RMB devaluation in 1994, but the depreciation of the yen from 1995-98 had a larger impact. The dollar went from less than 80 yen to 148 yen. This knocked the strong dollar, which then knocked all those other currencies that were involved in the Asian crisis. The crisis that came in 2008 followed the subprime mortgage crisis and the big bailouts by central banks in August 2007. The crisis itself though was because of the dollar soaring again. It was this flight into the dollar safe haven that has continued to knock weaker currencies and produce huge swings in exchange rates.

To follow all this up, in 2011, the French president of the G20, Sarkozy, made 3 critiques of the international monetary system. His first point was that there's been an excessive instability of raw material prices; Secondly, there has been extreme instability with regards to exchange rates; thirdly, there's been a lack of governance in the international monetary system because organizations like the IMF have very little power. Again, this is nowhere near a catastrophe, but it's still important to consider these deficiencies and look towards finding alternative ways to improve the international monetary system. My own predilection is that the single most important problem is the instability in the exchange rates. If we can't stabilize the Dollar-Euro rate, then there can't be a global monetary system. Fluctuating rates of



exchange rates is a nonsensical system.

**Lin Shu:** What's the most important factor to control excessive volatility? Some scholars have suggested adopting a world currency and some suggest using other reserve currencies. What is your take on these assumptions?

**Robert A. Mundell:** Creating a world currency is ideal if there is more than one. It's like having a common language that is everyone's second language so that people can all communicate with one another.

Finding a currency that is above the others which every currency can convert into, is similar to what gold did in the past. Under the gold standard there weren't fixed exchange rates. They were fixed to gold which determined exchange rates through free markets which kept exchange rates fixed within narrow limits.

The difficulty lies in creating a substitute for gold. Gold won't work. It can be dug out of the ground is used to various different reasons. It has too much intrinsic worth outside of its monetary value, and countries also don't want to risk sacrificing their nation's sovereignty to make for an effective international monetary system without a world government. Can we create one using the gold standard and no paper currency? I fully support this but there wasn't a plan for this at Breton woods. They had plans, like Keynes' plan put forth by the British, and White's plan by the US, for a world currency, but it never came to fruition because it was not politically agreed upon to have that, and wasn't palpable enough by the US at that time in how it would work.

I also want to emphasize that the current system hasn't been a complete failure and nor does it require a complete overhaul. It's been working out great for nations like China. It has accumulated about 4 trillion dollars of reserves over this period. With a gold standard, this would have led to new money being taken away from other countries and created a crash. The ability of the Federal Reserve to continue printing money has allowed it to behave much like a central bank and support the Foreign Direct Investments (FDI) in developing nations, like China. This has worked wonders for China and has allowed it to build up an establishment with a lot of foreign investment from abroad.

We don't want to destroy our current international monetary system. Some parts of it are great. Maybe it has gone on for too long, but we want to keep some of it for the future system. It's been permissive. Although the arguments against a permissive system is that it might be inflationary, but this one hasn't. There's been no inflation in either the USA or China. These are the 3 main parts of the world that we have to consider. We have to get an international monetary system. We can't take away what we have, but we can make

improvements. The biggest improvement would be stabilizing the US-euro exchange rate. China fixes to the dollar, so it has problems when the US-euro exchange rate changes, because then the RMB has to change to also match the euro. This is a big market now, and one that has to be considered. But can we have a world currency without a world government?

**Lin Shu:** Do you think SDR (Special Drawing Rights) has the potentiality to become a global currency?

**Robert A. Mundell:** In my opinion, SDR won't become a global currency because you can't have currency out of a basket. It's like adding dollars, plus euro, plus yen, and soon the RMB too. Then you have the five currency basket. As long as those rates are fluctuating, no one is going to use this currency as tool for bond pricing ratings. It would be fine if they were all fixed together, but they are not. When SDR began, it wasn't rated as a currency basket. It was rated as one 35th of an ounce of gold. It began as equal to the gold dollar in 1968. Then the gold value the guarantee was stripped away in 1974 when the basket system was created.

There were a lot of advantages to having this basket, but it is not a currency or a good unit of account. It loses this property. Now it is a useful instrument for giving away money to developing countries. It is becoming an instrument of foreign aid. Developing countries are fine and advocating that the FDR become an instrument for foreign aid. It's good on its own ground but this has nothing to do with the monetary system. Let's keep the SDR and just acknowledge that it's not going to be money. It's going to be a weighted average of soon to be 5 currencies that countries can use as foreign aid.

**Lin Shu:** Do you think the Euro area is an optimal currency area? Some believe that the level of effective mobility is too low for the Euro area, especially with regards to labor mobility.

**Robert A. Mundell:** I don't think that is a fair critique. You don't have migration inside countries nor a great deal of migration anyway. You don't have Germans leaving Germany, nor people in depressed regions like the Baltic emigrating either. You just don't have people moving very much. People typically like to stay in the place where they are. There is a lot of mobility. The German labor force has changed enormously and now there is a sizable Turkish labor force. There is a high degree of a discrepancy between the margin of the kind of labor needed and the people to fulfill those roles. The problem isn't the lack of labor mobility. The problem is that the unemployed in places like Spain and Greece aren't the ones needed to go to Germany if there is labor surplus.

This is even the case in the United States. The

unemployment rate is 7.5 percent, maybe 2 million too much. Along with the growth of the labor force, there are people who are unemployed that are uneducated. They can't get the jobs that exist. In France I heard an interesting figure. There are 3 million unemployed and 3 million vacancies. They don't mix because of the unmatched skill characteristics. It's a type of structural unemployment. The problem in Europe is the same issue it had before the euro came in. In the 1970s, this type of unemployment was all over Europe. There was a big surge in government spending in the 1960s in Europe. I once did a study on this, the government's spending was on average about 25 percent of GDP in the 1970s, 80s, and 90s. It has shifted up towards 50 percent, and not towards spending on infrastructure, but in social welfare pensions and medical plans. People wanted these and governments catered to them without much responsibility when they enacted these reforms.

But they couldn't find the taxes to pay for all this spending and this ran up big budget deficits. Italy ran it up to 120 percent of GDP when it went into the euro zone. Greece's was 110 percent of GDP, and Belgium was about 130 percent. Even these understate the problem because the unfunded liabilities also have to be considered too. When you look ahead at major hits over the decades, governments have to spend using deficit in the budgets that haven't been funded. The real debt is much higher than it actually is. These debt/overspending problems that individual nations have are now just more spread out in a community like fashion.

Major countries like Greece did welfare provisions that were equal to those in Germany, but its per-capita income was much lower, around two and half times lower. So Greece went bankrupt and had to be bailed out. Now Greece has to scale down, but the Greeks turned over the unemployed to the government and run the deficit up even more. Greece has had major changes though. It had about 900,000 people out of a population of 10,000,000 working for the government. That's almost 10 percent of the population. They have brought it down to around 700,000. It's a lot but still not enough. Either way, it's a major adjustment. It highlights that people need to make plans so that they don't get hurt. In some cases you have to work out the tax system, but if you raise taxes too much you will make work for an unproductive system.

One way of addressing this is by having a more expansive monetary policy. Many people think this and so does the head of the European Central Bank, Mario Draghi. However there is a mandate that the European Central Bank has that says it's not supposed to do anything that will raise the inflation rate. Nobody wants it. But there's also another mandate that says Draghi has to save the Euro, so he's going to do

everything he can to save it. One way of fixing this is to not let the exchange rate of the euro go to high. This happened last year, and it was a mistake by the banks.

Either nation behaves more responsibly with their deficits, or else there's going to have to be a stronger fiscal central authority which these nations are subject to. Nations need to stabilize their increases in spending if they want to come out of their respective mires. Germany has to be more willing to lend more and help stabilize other nations. But having a monetary union like this is a touchy argument. 9 nations have already gone bankrupt, but not because of a lack of a fiscal union. This is because of state spending. A minister of finance could stabilize the increase in spending and also make cuts, but it requires a big shift of power.

**Lin Shu:** Chinese is taking concrete steps to change its financial system. Initially, China used a fixed exchange rate system to control the inflation, but now China is running a large currency account surplus. What do you think of a revaluation of the RMB?

**Robert A. Mundell:** Many people are recommending a lowering of the price of the dollar. When the dollar was pegged at 8.28 from 1997-2005, Americans insisted that it should be lowered to 4 or 3 RMB to the dollar. This would have instigated larger unemployment rates and wrecked China's growth. In 2008, China was hit hard by the euro crisis because that's when the dollar was soaring against the Euro while the RMB was appreciating against the dollar. So that's why China fixed its currency rate at 6.8 against the dollar and also why it has only let its appreciation go down very slowly. It's a strategy that has been working very well. The only time that China should think of appreciating its currency is if keeping it fixed will create excessive inflation in China.

**Lin Shu:** China has very strong capital control of the financial market. Do you think China should loosen up on this account control? Lastly, do you think China can one day be a world class financial center?

**Robert A. Mundell:** China should do this when it's in its own interests. I think the advantages of doing so would be convertibility. China would immediately be put into the SDR (Special Drawing Rights). The absence of exchange control would unify the stock markets. Shanghai would move very quickly to a global capital market. This would push for a lot more reforms. Credit rating agencies would have to allow for more opening so they could come into China and help with the rating systems. China has the potential to become a world class financial center.

## An Insight of the Relations between China and U.S.

### Robert Zoellick

Robert Zoellick, the eleventh World Bank Group President; Senior Fellow, Belfer Center at Harvard University's Kennedy School of Government and the Peterson Institute for International Economics.

- Interviewer: Wu Xinbo (Vice Executive Dean, Institute of International Studies, Fudan University)  
Editor: Jeffrey Chen



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The issue that could corrode all aspects of the relationship is cyber security, because this is an area that lacks an intellectual policy framework.

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**Wu Xinbo:** When was the first time you came to China? It must have been a long time ago.

**Robert Zoellick:** In 1980, I lived in Hong Kong on a research fellowship. My wife and I went to Macau and took an excursion into Guangdong Province. At the time, Hong Kong was very different than it is now, and I've had the opportunity to see with my own eyes the vast changes occurring in China. In 1989, I returned when the first President Bush came here on an early visit. Since then I have had the opportunity to come back to China many times. One of the things that most intrigues me is seeing other parts of China. There are many foreigners whose image of China is only shaped by visiting Beijing and Shanghai. I've always learned a lot from traveling to the other parts of the country.

**Wu Xinbo:** In addition to your official responsibility, you also have taken an interest in observing the changes that have taken place across the country. In your encounters with China, what are the things that you have found most interesting, intriguing, or difficult to understand?

**Robert Zoellick:** When I was in college I studied history and economics—history has been an interest of mine my whole life, and gives you a wonderful perspective not only on current events but also on changing relationships over time. I think about China in historical context, which is especially important when trying to understand the incredible transformation since the 1980s. I've recently been reading books about China based on new historical research, which are intriguing because all countries have narratives—the predominant one in Chinese discourse is the “century of humiliation”, the weakness of China from the end of the Qing Dynasty, unequal treaties, etc., and much of the current narrative is about overcoming this history. These histories are interesting because they demonstrate that China's relations with the world over the last 200 years are far more complex than the straightforward narrative: some good, some bad, some are just a matter of interaction.

One of the issues for China and Asia will be understanding and debating China's modern history and its interaction with others. Sharing

perspectives with ones' neighbors, debating and discussing history is important not only to understand the past but to have some perspective on the future. On security issues, particularly sovereignty issues such as North Korea, the Diaoyu Islands, and the South China Sea disputes, it's important to have a historical grounding.

**Wu Xinbo:** In addition to history, you also learnt from your dealings with Chinese officials and people you encounter in your travels. Can you share with us your experience in personal interactions?

**Robert Zoellick:** First, Chinese officials of my generation went through the Cultural Revolution. For the mindset and outlook of China's current generation of leaders, the dangers of power, dangers of instability, and the need to balance between rule of law and social fragmentation are of great importance and have deep historical roots.

A second aspect is getting to know the perspective of local officials before they enter the environment in the capital. Meeting party secretaries in their provinces is different than in Beijing.

Third, Westerners do not have a good sense of how policy is made. This is related to the relative opacity of the Chinese political system.

Fourth, the U.S. debate about China's "theory" of international relations is influenced by personal interactions, with different views on security and economic issues. For example, some who have dealt with China on security issues, such as Henry Kissinger, might say that China's view of itself in the world is established by the concept of a middle kingdom and tributary relations with other countries. Therefore, China's acceptance of the norms and rules of an interstate system would be difficult to develop. On the other hand, U.S. officials who dealt with Deng Xiaoping and Zhu Rongji, leaders who implemented economic reforms and embraced the WTO along with its institutions and rules to transform economic system, would have a different perspective.

The "new type of great power relationship" launched by Xi Jinping inevitably invokes this question: what's underneath this idea? Likewise, my speech about China becoming a "responsible stakeholder" in the international system provoked debate questioning

the logic of this concept. In the West, the debate is: if China does not want the current international system, then what does it want to change?

In understanding leaders, it is important to understand the systemic challenges facing China. Considering the ingenuity, hard work, devotion, and energy of the Chinese people over the past 30 years, the question is not just leadership, but also about creating the environment for Chinese people to exercise their abilities.

**Wu Xinbo:** There is tension between economic and security issues in China's policy, and also in U.S. policy towards China. Our countries are interdependent economically, but there is strategic mistrust on security issues. When George W. Bush took office he adopted a tough China policy; at the same time, China entered the WTO. You were the U.S. Trade Representative at the time. Was there a clear division between security policy and economic policy?

**Robert Zoellick:** That is an interesting historical question which also provides insight on how policy is made. I became USTR in early 2001. During this time, Zhu Rongji had worked very hard on the China-U.S. bilateral agreement regarding China's accession to WTO. When a country joins the WTO, it has to work out bilateral agreements with existing members, then it has to work out the multilateral rules governing the institution. Bilateral relations worked out and Congress passed PNTR (Permanent Normal Trade Relations), but multilateral rules were not yet worked out. That year China hosted APEC meetings in Shanghai in which State Councilor Yang (Jiechi) and I negotiated. That was right after the EP-3 plane incident, and Secretary of State Powell and others had a hard time reaching Chinese counterparts to work out the crisis. Tensions raised, but this did not affect my efforts to deal with the trade agreement. President Bush was convinced this incident should not interfere with WTO accession, reflecting his "integrationist" concept about drawing China into the international system. The next stage was "responsible stakeholder": taking the systemic notion of helping China with market reforms, integration with the international system, and expanding it to other aspects of relationship.

**Wu Xinbo:** My understanding is that the idea of the strategic dialogue with Dai Bingguo in 2005 and 2006 originated from the U.S. Side during Bush's second term. What was the intention for launching this dialogue with China, and what was your understanding of China's policy towards the U.S. and the evolution of China-U.S. relations?

**Robert Zoellick:** I do not know whether it came from the Chinese side or the U.S. side. This is another insight into the world of official policy: sometimes it is more "serendipity" and less coherent than scholars like to think. When I moved to the State Department in 2005, I inherited this idea of a "senior dialogue" or strategic dialogue to be done at the deputy level. It fit what I wanted to do because after the WTO accession, U.S. policy didn't really have the necessary strategic focus. In China as well, the Ministry of Foreign Affairs and the National Development and Reform Commission never interacted. Because of Minister Dai Bingguo's personality and position, we were able to engage through the dialogue on a wider range of topics. This reflects the need for a quiet, conversational strategic dialogue between leaders, as in summit meeting between President Xi and President Obama this June. If you look at the history of Sino-American relations, the strategic dialogue works best when you have counterparts who want to engage at the strategic level in a very close fashion: Kissinger-Zhou, Brzezinski-Deng, etc. The human factor is important for going beyond talk and shaping frameworks for the relationship moving into the future.

**Wu Xinbo:** You mentioned the upcoming summit between Xi and Obama. As a Republican, what is your view on Obama's first four years of China policy?

**Robert Zoellick:** Partisanship in U.S. politics is important, but it is also important to understand the interconnectivity as well. Obama's senior NSC official Jeff Bader had worked with me at the USTR on WTO accession. Jon Hunstman (ambassador to Beijing) also worked with me at the USTR. Tom Donilon was also a good friend of mine. Some of the key people advising President Obama on his China possibility were similar to the ones in the Bush administration. Early in Obama's first term he was seeking to be attentive to issues of face and respect, but this was not received as expected by Chinese counterparts who felt like they were not getting cooperation or respect, for

example in the 2009 Copenhagen Climate Conference. Sensitivity in currency and trade relations are another example. As a result, Obama was seen as "toughening" his China policy.

The issue that could corrode all aspects of the relationship is cyber security, because this is an area that lacks an intellectual policy framework. We need academics to help, because it covers many areas. Military espionage has always been around; commercial espionage, however, is a whole different process, as is the potential for sabotage and warfare capabilities. Some policymakers and military officials want to engage in discussion about whether traditional concepts such as collateral damage or hot pursuit apply in the cyber realm. Until recently, the Chinese government has been unwilling to engage in a discussion on this.

When nuclear weapons first came on the scene in 1945, people thought they were just bigger bombs or larger artillery. Then, they began to realize that these weapons are far more devastating and their use would have serious implications for mankind as a whole. People started developing concepts of mutual deterrence and no first-strike, etc., developing a framework for thinking about these issues. With cyber security, there is a danger to the politics of relationships: when people get scared about something they do not know how to cope with, their worst fears run amok. In a strategic dialogue, on the one hand you need to mediate long-term changes; on the other hand, you must deal with some of the most pressing current issues. I think some of those issues we are facing right now include cyber security and North Korea.

**Wu Xinbo:** In your 2005 speech, you coined the phrase "responsible stakeholder"; today, as China's international influence grows and its interests expand, China increasingly realizing its responsibility in a regional and global context. Other countries, the U.S. in particular, ask China to share more responsibility. To what extent are they prepared to also share power and prestige with China? Have you noticed any evolution in the U.S. thinking about China policy since 2005?

**Robert Zoellick:** On the security side, one aspect of U.S.-China relations is that there are a number of common global interests: energy security, sea-lanes, anti-terrorism, and others. Tensions are more regional.

The challenge for both sides is not letting regional tensions overwhelm global cooperation, which in turn can lead to conciliation on regional issues.

On many issues, there is talk of deepening cooperation with China. In practical terms, if China and U.S. work together, they can be quite influential. If they do not, we will have a hard time making progress on global issues such as the environment and climate change, economic recovery, rebalancing, and the trading system. The U.S. is interested in working with China, while still recognizing that China is still a developing country. At the World Bank, I brought in Justin Lin, the first Chinese chief economist; the International Finance Corporation head and CFO are both Chinese; Zhu Min is Deputy Director at the IMF; we are encouraging the U.S. and China to work together.

Regarding the desire to share power, it raises an additional question: how do countries perceive their national interests in systemic terms? The international system has worked well for China. If you do not like it, what is your alternative? On the economic side, there are many examples of cooperative power sharing and mutual interests. On security issues, I believe maritime security and freedom of navigation are common interests, as are developing space and resources. There is a willingness to share, but the dominant view in the U.S. is that China has been reluctant, or hesitant to share some responsibilities.

In terms of interests, the difference between mutually shared or divergent threat perceptions is important. For example, North Korean nuclear weapons and provocation are a real threat, however China considers instability more of a threat. Nonetheless, there are mutual interests, because if North Korea takes these actions, South Korea, Japan, and the U.S. will respond in ways detrimental to China's interests.

Economically, both China and the U.S. have been relatively responsible. In general, the economic side has a rich network of ties. While there are frictions and conflicts, we should be able to manage those better. On the security side, we lack that network of ties, which is dangerous.

**Wu Xinbo:** In 2010, the IMF passed a reform package raising the share of voting rights of the developing economies, including China. So far

the U.S. Congress has not yet approved. How will this develop over the next several years?

**Robert Zoellick:** The inaction by the U.S. Congress has nothing to do with China. In fact, members of Congress have little interest in the IMF and other international institutions. Especially at a time when they are trying to manage their budget, they want to know why they should give more money to the IMF. They are questioning their involvement in these institutions, much less trying to control them.

Earlier this week I met with Republicans in the Foreign Relations and Banking Committee, to discuss the IMF quota. Interestingly enough, one of them asked me, would other countries be pleased if the U.S. did not pay for its quota increase so that they could get more power? Would China like it more if the U.S. did not participate, so that China could have more power and influence? I said, maybe some people in China would like that, but by and large most people want the U.S. to play a role in this system.

Sometimes there is a view that the U.S. is trying to control everything; I spend most of my time trying to make sure that it stays constructively involved.

One more point. For those of you here who are studying America, you will be interacting with U.S. elites. It is important to remember that while per capita incomes in the U.S. are higher than they are in China, there are many people in the U.S. who are struggling to hold a job, pay their bills, and make sure their children go to school. They are ordinary people who do not want to run the world, and would prefer to take care of things at home. As you study, in addition to talking to the well-educated academics and policymakers, try to associate more broadly with people in the country in order to get a feeling for what leaders in a democracy have to deal with.

Here there is a strong correlation with my own experience traveling to villages and small cities in China. There are some people in the U.S. who think that China wants to take over the world; in fact, most Chinese just want to have a better life and work harder. They have seen great improvement in their life, they think this is a great opportunity, and they are also aware of the dangers. They do not want to take over the world. Likewise, the U.S. is a large, vast place, where politics and information circuits are multitudinous. Going to

American universities is good, but also go out to some towns and Chambers of Commerce, where issues like currency and cyber security become political issues that are more complicated for officials to manage.

**Wu Xinbo:** What the same and what's different between "responsible stakeholder" and "new type of great power relationship" concept?

**Robert Zoellick:** The concept is based on Chinese leaders' study of history. In Western thought, it dates back to Thucydides' history of the Peloponnesian War in the 5th century BC. The war was caused by the rise of Athens and the fear it inspired in Sparta; the fear of a rising power. I think the Chinese leadership wants to say, a rising power doesn't always lead to conflict, hence a new type of great power relationship. This is an interesting idea, but what does it really mean? This provides an opportunity for us.

How does this relate to "responsible stakeholder"? That depends on the leaders. My view is that great power relations based on systemic integration is possible, but it will be difficult to work out the details. An example: China's plans for changing the structure of the economy, expand the service sector, to expand business opportunities and increase domestic consumption and demand, one possibility would be bringing foreign firms in to help make a more competitive, productive service sector, whether in logistics or telecom or finance or other areas. This creates mutual economic opportunities and removes some frictions, while expanding the service sector at the same time. Besides working on bilateral cooperation, the U.S. and China could also push forward liberalization of the global service sector in the WTO, which would have a systemic effect. National or bilateral issues can be framed in a context that strengthens the international system.

**Wu Xinbo:** The Bush family has close relations with China. What's the significance of personal relationships between political leaders in China-U.S. relations and global affairs?

**Robert Zoellick:** Personal relations can help. They won't necessarily overcome fundamental differences; and when personal relations are bad, they won't necessarily interfere with mutual interests. At the margin, they can help people understand the others' political difficulties and perhaps create a better context for solving and managing problems.

At a ministerial level, personal attitudes make a difference. Sometimes people feel that trade negotiation is zero-sum. In fact, they are not; they are joint problem-solving exercises. Understanding the political pressures of the other side helps the negotiation process. It is important to show that you can deliver: not just come up with solutions but make them work in your own political system. When a big country is dealing with small countries, the small often feel that they are helpless. If you try to actively help solve their problems, they appreciate that. In any bureaucracy it can be hard to get things done. It is important to think strategically, but it is also important to think operationally and be detail-oriented.

**Wu Xinbo:** About the relations between the party and the state, the question of sustainability if the party operates with a different set of rules. I think the current understanding is that the ruling party leads in making the law, then should abide by the law and work within the parameters of the law.

**Robert Zoellick:** If you look back at the evolution of other political systems, there were monarchies in which kings were largely unrestrained. Building on Professor Wu's point, over time even the king became subject to the law.

**Wu Xinbo:** From a comparative point of view, how do you assess the potential for regional integration in East Asia, especially in relation to the positive history in Europe?

**Robert Zoellick:** It's a very important concept. For decades, there was a debate in economics and political science about regional vs. global systems. There was a concern in the trade area that there would be regional blocs that would interfere with the global trade system. I always thought that was a potential danger, however, it overlooked the fact that it would be natural to have regional integration within a global system. One of the challenges is how do you get benefits from dealing with issues that are regional/trans-border, environment, people, investment and other aspects while connecting to an overall global system. This is partly the story of the EU and is happening to a certain degree in North America. It is deepening across East Asia with regional economic integration. From removing impediments, customs systems,

trade facilitation, etc., there are huge gains that can be realized. At the same time, it is important to keep global perspective. Supply chains, logistics, and capital movements still need to be linked to the global system. There is some danger in the aftermath of the global financial crisis, of re-nationalization. Even in Europe you see this issue with currency. There is a rich agenda here related to regional integration and its connection to global systems. Global players like U.S. and China must operate in both. I've been urging the U.S. admin that while they promote the TPP or trans-Atlantic that they also connect to the global system, rather than as alternatives to the global system.

Another dimension is the security level, where there are still fundamental differences. Here in East Asia, the concept is far from the postmodernist, international concept in Europe. The patterns of the 19th century are much more alive in Asia than the patterns of the 21st century. Bringing students together is one example of dealing with history. Germany dealt with its history in WWII very differently than Japan did, and although I support Japanese democracy, I get nervous when the Japanese government does not manage the historical issue well. The danger is that even among sophisticated people, some of them feel that they have atoned for their history, while failing to realize the difference in perception between them and the other people in Asia.

China must be cautious because it is a rising power and is expanding its role in the region. If expansion of its mil role creates anxieties among its neighbors, it will see a counter-reaction in the 19th century sense. I don't think the competition for resources is worth the tensions caused relating to historical memory and sensitive issues.

One last dimension is the U.S. role. The U.S. created a system of stability in the security realm. Despite U.S. mistakes, it's important for Chinese policymakers to recognize that many countries in the region view the U.S. security stability as important. If China is seen as threatening to destabilize that, it will not be good for anybody. On accepting China's role, there are things the U.S. and others can do to facilitate it. Regardless, the U.S. has a security structure in East Asia that is partly historical legacy, partly conscious policy, and one has to be careful about disrupting that because it is unlike 21st century Europe and some of the sensitivities and rivalries are much more prominent. Lastly, there's been a school in western thought going

back to the 16th about economic interdependence overcoming war and conflict. Right before WWI there was a view that interdependence would prevent the war, obviously it didn't. In the U.S. China relationship, or even globally, interdependence by itself doesn't solve these problems. It can create a better context and problem-solving attitude and sense of interests, that's where statesmen and policymakers need to keep working on issues: teaching history, sharing views, understanding the past.

Whenever I come to China I find it a very intellectually stimulating place, not only on economic issues, but in other areas as well. This is a society that has undergone huge changes since the 1980s, and it will be up to your generation whether you will keep this on track and manage some of these sensitivities and issues. The key is, China will have its challenges but will nonetheless be playing an even bigger role in the international sys. For you as Chinese, you need to be aware that causes anxieties. How do you manage that will be very important. One of the issues that Germans struggle with is, Germany has been very sensitive after WWII about not being seen as trying to dominate Europe. One of the realities is, after the financial crisis, Germany is dominant in Europe. So they struggle with how they can be dominant without appearing to be dominating. German friends who find it frustrating that they give money to other countries, and the other countries still criticize Germany. Welcome to the role of being the big power. It will be that way with the U.S. for some time. It will happen with China, but it will happen with China in a different way. You're going to be the people who help determine this future. It's important for all our countries, as well as the global system. If you think about being born in this time and space, what an exciting opportunity.



## Asia Should Learn the Lessons from the West on NCD

**Michael Merson**

Interim Vice President and Vice Provost, Global Strategy and Programs, Duke University

- Interviewer: Fu Hua (Professor, School of Public Health, Fudan University)  
Editor: Huang Xinyi



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*This is a very great country, and you should learn the lesson from the west that we went through, and keep your population from getting sick with non-communicable diseases.*

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**Fu Hua:** In China, the prevalence of smoking is very high, when we talk about NCD prevention this is the high priority for prevention of NCD. What do you think when faced with this great challenge, what we should do in China?

**Michael Merson:** Certainly I agree with you that right now non-communicable diseases are the highest priority. The media gives a lot of attention to the viruses like avian flu, and TB. Of course these are problems, and we need to take them seriously. But by far the greatest threat to the billions of people in Asia and the Chinese population are the non-communicable diseases, particularly like stroke, diabetes, cancer, but also the mental health problems. These are great challenges.

It is interesting for me that some of the countries in the west faced this problem a generation ago, and learnt how to deal with the problems. Unfortunately, those lessons are not being applied in Asia, or in China, to my great disappointment. It looks like you are going to go through the same sad stories of many people dying early, many people getting sick early, and not having a long and happy life.

The main two risk factors are smoking and diet. With regard to diet, of course it is eating too much fat, and not enough grains and fruit, and also far too much salt, which results in serious problems with blood pressure and stroke, which is a very big problem in China.

About tobacco, I think there is no doubt that the greatest threat to the health of everyone in the world is tobacco. Sometimes people ask me, what is the world's greatest pandemic? And they think of AIDS, but for me, the world's greatest pandemic is the use of tobacco. Look at 2030, there will almost 180 million deaths from tobacco, most of them will be in middling income countries. Tobacco is a terrible very serious risk factor for heart disease, and of course for respiratory disease, and for a lung cancer, which is the leading cause of cancer in men and women in China. So I think that the risks are profound from tobacco, and the consequences are great.

Now what to do? The experience in countries like Singapore or the United States is very much that you have to make some policy changes. There is a global framework, adopted by WHO Convention on Tobacco Control. But it is very easy to sign a document, while it is another thing to act on the document. In the United States, probably the biggest effort has been on tax. To put the tax very high so the cigarette packet will cost a lot of money. And

if the cigarette cost a lot of money, fewer people will buy. And you know that we should focus our efforts on young people. Because tobacco is so addicting that once you are hooked, you are going to have a hard time unhooking. So we need to be sure that we keep the price high, and educate our young people, from the time they are five years old, right through the teenage years, about the risk of smoking particularly in China. Now I hear about other reasons that why people smoke, like people have too much stress, women like to smoke so that they keep their weight down. I know the arguments, but the consequences are so great later in life that we need to make people realize that, and we need to give them other ways to relieve their stress, for example, they can exercise, take a break from work, and for women they can eat healthier, if they are worried about their weight.

But it is going to require political will much more than a health system. We need the education system, the finance ministry, the trade industry, and a response not just in ministry but at all level, including the central level and the provincial level. Because there are decisions made at all levels that have an important impact on smoking everywhere, including in China.

Also in China of course, we need to provide incentives for farmer who is growing tobacco to grow some other product. There has to be a decision made on provincial level to encourage them to grow something else that can make as much profit for them, because everybody wants to earn a good living, therefore you cannot just say to the farmers stop growing tobacco. You need to give the farmers some other incentives.

**Fu Hua:** You talked about risk factors, one is the tobacco, and another is the diet, and also physical inactivity. And for tobacco, maybe you mentioned for policies and multi-sector cooperation. For the diet, and also the physical inactivity, what is the solution for this?

**Michael Merson:** Again we need to make sound policies. With regard to diet, we need to educate particularly young people on the importance of eating healthy, to look good and also to have a long life. We maybe need to use popular celebrities to promote safe eating. We also need to put some policies in place that will help people eat. For example, what food do we use in the schools? We should only use healthy food, no soda pop in the schools, not even near the schools. Because children take many calories from eating carbonated soda and sugar beverages. Also we can talk to the industry. We can ask the fast food industry to cook with healthy oil, to reduce their calories in their meals, particularly the meals for children. It will be

better if they volunteer to do this, if not, maybe we have to impulse certain policies.

Also for salt, we can think about how to make people to have less sodium chlorite. We can put spoons in the home, or we can replace the sodium chlorite partially with potassium chlorite. I know the taste is not quite the same, but maybe if we give people at young age, they will start to develop that taste.

So it is going to take multi-sector approach. We need both to educate and make strong policy and maybe we have to legislate to get the success that we need. You know in New York City, you now have on the menu the calorie of every meal that you order in every restaurant in New York City. It makes a lot of advocacy and makes people more conscious of the problem.

About physical activity, when I first came to China thirty-five years ago, I went out on the street, I didn't see any car, everybody in the riding a bicycle, everybody taking Tai- Chi. In the morning, the streets were full of people doing Tai- Chi. Now I go to street, I see BMW, I see Toyota, I see KIA, I don't see bicycles very much, and I don't see too much Tai- Chi. And I look on streets for fitness facility, I don't see fitness facility. When you go to the United States, you can find a fitness facility everywhere, even in the work place. Many work places have fitness facilities. All businesses and schools should have adequate facilities for people to take a break, to exercise and shower afterwards. We also need in our schools to have physical education programs, during school, or after school, and we should make them compulsory, so that all young people are exercising. Every adult should exercise thirty minute every day, even just walking is fine. We say every adult should take eight thousand steps a day. It is a wonderful goal to have. So I think it is possible. We need the public to demand these changes, and maybe then a policy maker will take the need more seriously.

Again we have to get the private sector to work with us, not to fight us. Because they have more money, they can do more advertising, and so they need to be our partner and see that they don't have to lose their profit, if they are also making people healthy.

**Fu Hua:** About NCD prevention and control, what can the healthy system to do about it?

**Michael Merson:** Unfortunately, most people reach the health system after they are sick, with non-communicable diseases. But I think that the health

system first can play a role in prevention. When they are seeing a young person for vaccination, or when a mother comes and check up for pregnancy, they can talk about healthy diet, no smoking, and healthy living. We could look up for all opportunities to educate people about prevention of chronic disease. The difficulty of course is that most of these diseases have long incubation period, so people are not seeing the benefit quickly. But we should let them know that the health care worker is trusted. And that health care worker should see as their routine responsibility to educate people.

In China, we know that most people with high blood pressure, but they don't know they have it. And if they knew, they could reduce their salt, maybe take a diuretic and something stronger to treat their high blood pressure. So the first and foremost the health sector can help on prevention. If you have a high risk and you are a mid-aged adult, if your family has heart disease, you can take Aspirin once a day. Aspirin is very effective to prevent the heart attack in people with high risk disease. So for me not only the doctors, but health sector needs to think more about prevention. Now, if people become sick, with high blood pressure, or stroke, or heart attack, or angina, or cancer, we should make sure we need to provide them with the best care, and to learn to help them manage their disease. People need education on how to live healthier, and how to keep their chronic disease from getting worse.

**Fu Hua:** Our Forum will focus on Asia, for it is the hottest economic developing area in the world. Mental problem has become a high risk for people in China and other places of Asia. It is the one of the high risk factor that WHO is focus on. How do you see the mental health and NCD prevention?

**Michael Merson:** You make an important point that the Asia economic grows very quickly and China is becoming the second biggest economy, maybe quickly the biggest. I think maybe this happened so quickly that people forgot the social dimension and they are now feeling economic invincibility, that anything can be changed by having a strong economy.

One of the prices China and Asia is paying for the rapid economy change is the rapid social change, more urbanization, more industrialization, more globalization, aging population, all of these things have come about as result of economic development. These changes come about so quickly that the policy makers have been too slow to act. But they cannot

wait any longer. The longer they wait, the greater the consequence will be.

Now alcohol is a risk. A little bit of alcohol probably is protective for heart disease, but we should not exaggerate that. Alcohol is in moderation acceptable, but in excess can be harmful. People who are drinking too much can have a liver disease, fatty liver in particular. So we also care need to educate the public, and also have very strict rules. For example, I know in China, you have strong rules on driving, it is very good, and it must be enforced. I have noticed that my last few visits to China there is less Mao-tai, and less wild drinking in dinner. I think it is the healthy good thing to do, I think the government is doing the right thing to enforce the drinking in moderation.

The problem about alcohol reflects the stress people have. So how else to relieve their stress? So I think we need to have policies into the work place. For example, people can take break in the day, people can exercise more, be sure to use their vacation. If we create a norm where some break to release the stress is done everywhere, that hopefully everybody will feel comfortable have such break.

China has a competition culture. The competition starts at a very young age. I see the students who come to the U.S. that they have tried so hard compete the exam and it's something that they start very early in life. I think the Chinese government needs to think about that: Are there other ways for young people to demonstrate their excellence? Are there other ways for young people to achieve their goals without so much stress in the youth? Because I think that early youth stress doesn't go away. It is something grows into adulthood and affects their well-being.

**Fu Hua:** I think your comment and the point you made is very helpful. Thank you very much.

**Michael Merson:** Thank you. This is a very great country, and you should learn the lesson from the west that we went through, and keep your population from getting sick with non-communicable diseases.

## China Could be a Front Runner on Global Pollution Problem

**Andreas Löschel**

Chairman, Commission of Experts for Monitoring Energy Transformation, German Federal Government. Professor and Head of Department, Centre for European Economic Research (ZEW). Professor of Economics, University of Heidelberg

■ Interviewer: Wu Libo (Professor of School of Economics, Fudan University)  
Editor: Silvan Griffith



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*I am still convinced that will be a technology of the future, but that will not be applied first in Germany, which might as well be ok, because given the global nature of the problem I think it is better to have China being a front runner on that.*

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**Wu Libo:** Could you please make a very brief introduction to your position as the chairman of the expert committee of the energy transition of the German government? Could you please describe the function of this?

**Andreas Löschel:** The German government has set long term targets to achieve a transition of its energy system by 2050, and these targets and this whole transition were described in the energy concept that was initiated in 2007. In this energy concept, the government not only drew this vision of the energy system, the new German energy system in the middle of the 21st century, but also stated that this whole transformation should be followed by a monitoring process, and this monitoring process should be scientifically based, to see whether Germany is on track in achieving these targets, and if they are not on track, to see what has to be adjusted in order to achieve this long term goal. This monitoring process consists of two tracks. The one track is that the ministries publish each year a monitoring report on the advancement in these different areas based on around 50 indicators of the energy transition in terms of energy security, the cost of energy for the German industry and households, as well as energy security issues.

**Wu Libo:** Are there any new findings in the upcoming report?

**Andreas Löschel:** There are always new ideas that we try to push forward. We go basically through all the different areas that matter, and we try to put in perspective what we have achieved and what are our problems in the energy transition. For example, we looked at energy efficiency improvement. I think there is still a lot to be done. We looked at the issues of renewables. We think that we are well on track of achieving our goals in renewables. We looked at the issue of energy security, we think that we are facing a problem with respect to installed capacities in Germany. And we looked at the issue of costs, where we think that overall the cost of the energy transition at the moment are still in an acceptable level, but we see that some of the cost increases are already laid down in today's regulation. Lastly, the issue of the European dimension, where we looked closely at the EU emissions trading system, and we noted that the emissions trading system is not giving a big push to the German energy transition as the prices are quite low and incentive for low carbon investments are therefore not high for the German industry.

Regarding the energy system transition, one of the most critical challenges is the phase out of the nuclear system. That is why the renewable sector has to

increase more rapidly compared with previous years, and some fossil fuels have some competitors. But it is not the only challenge. There are more things we want to achieve, and it should be a consistent picture to achieve this transition. Nuclear phase-out is probably the most important and closely watched component of this transition, but I told you that we have other targets, like improvements in energy efficiency, renewable targets, and that is exactly to make this phase out of nuclear power possible. I think it is now mainly a problem for the building sector, because in the building sector we want to achieve until 2050 an almost carbon free building sector in Germany.

**Wu Libo:** That is supported by the solar system?

**Andreas Löschel:** These are renewables in heating. So we have to think about how we use insulation and other measures to achieve this carbon free building. It also means that we cannot only look at new buildings, but in the long run will have to look nearly all the buildings in Germany. This is very ambitious, and the main point of the energy efficiency, but it is necessary to make this transition possible. You also ask about the role of renewable. Of course, renewables are helping to substitute nuclear power, but they are only helping to some extent, because as you know we have intermediate renewables, so we still need conventional power.

**Wu Libo:** But according to the 2050 target, around 80 percent of the energy will come from renewables. Other countries think this is a very ambitious target!

**Andreas Löschel:** Ambitious, yes, but we have already made big progress. This comes at some cost, but we now have 23 percent of renewables, which partly make up the loss of nuclear capacity. We have switched off eight nuclear reactors right after the Fukushima disaster, but we still need backup capacities. In 2012, for example, we saw that we actually had a plus of 5 percent in coal electrification, which is partly because we have to make up for the missing capacity. So renewables are not fully substitutes. As you know, they also have different patterns, wherefore we also need conventional. This, of course, poses problems to achieve our CO2 emission targets, as emissions in Germany actually went up over the last years.

**Wu Libo:** As we know that recently the success of the shale gas in the US is a really good experience for the emerged economies to achieve energy independence, and I think President Obama is also trying to stimulate the deindustrialization by using such plans. What do you think of these kinds of energy independence strategies?

**Andreas Löschel:** Obviously that is an issue that is also hotly discussed in the German industry. As you can imagine, many German companies are now facing strong competition. On the other hand, I think we have to take into account that most of these problems in terms of competitive disadvantages are not related to the energy transition. There are other reasons. There is shale gas booms in the US and other places that puts them at a comparative disadvantage, so it is not the energy transition as such which is producing this cost disadvantage. Actually the German government is well aware of the problems of the energy intensive industries in the international competition, and so it is one of the lessons learned from these developments, because we are not going to follow this shale gas revolution in Germany. Germany is relatively sceptical and actually wants to wait some time until the technology has improved, and so it is not a short run option for Germany to use shale gas. Therefore the German government is aware of this problem and is trying to help the industry not to fall into a comparative disadvantage because of these prices. To some extent this cannot be compensated, but to the extent possible it is done, for example by exempting very large consumers from the feed in tariff, by helping them with lower grid fees, so this is just a reaction of this unequal reaction globally.

**Wu Libo:** You mentioned the feed in tariff. China now also has this kind of feed in tariff system for solar and wind, but China is also wondering whether it needs more flexible market based mechanisms like a trading system for renewable development. What kind of policy is the most effective to stimulate the development of renewables, and what are the costs and benefits?

**Andreas Löschel:** I think the German renewable policy was very effective, because we have seen large increases in renewables in the last years. Last year the share of renewables was 23 percent and it increased rapidly in the last years, so it was very effective. For such effectiveness, it had to be very attractive to invest in renewables, which means that you have to give high incentives for the investors. These incentives have led to an increase in wind power, for example, of about 2 GW per year, in PV of 7 GW per year because of these incentives. This led to a decrease in the cost of renewables in the last years, since we could use economies of scale and push forward technological development. The cost of PV decreased from more than 40 cents to 20 cents or even lower, and they are continuing to become cheaper. In fact, Germany is buying down the global learning curve of these technologies. It has now, however, also been shown to be a very costly policy, because the state costs increased along with the penetration of renewables: in

2012 we spent about € 20 billion in the promotion of renewables.

It is actually the second highest electricity price for households that we see in Europe, probably in the world after Denmark. So the need for reform is now really in the forefront of the political discussion, because we feel that the need for a fixed 20 year technology specific feed in tariff or subsidy for renewables which is for example totally taken away all the risks from the renewable investors, and we have seen that this has to be reformed. It was a good system, starting with the process for the infant stage, bringing renewables to 20 percent, but it is not a model we want to use for the next steps towards this 80 percent target. This is a discussion that just started, but you know we have elections this year, so it will be up to the new government that will be elected end of September to start this reform of this renewables system, and I think that has to be a profound reform which includes market integration of renewable and would also include a better market oriented support of renewable technologies in the future.

**Wu Libo:** As you mentioned elections, how do you think about uncertainties with such kind of long term green strategy?

**Andreas Löschel:** Well of course there are political uncertainties on the track, and I am sure that over time we will adjust our way forward. We don't know how we will move to this target and that means we have to be flexible anyway, to see whether policies are economically viable, whether they are environmentally sound, whether they actually contribute to energy security, so we have to maneuver. Political uncertainty is something that adds to this problem of being flexible and achieving our targets because new governments of course as well have new views on balancing these different targets. On the other hand we can see that the general idea gets bipartisan support in Germany, so even if there is a fight about the emphasis and the specific measures to implement, the general idea is supported by all parties. So therefore I do not think that if we get a different constellation at the end of this year we would see a totally new energy policy in Germany. There will be adjustments, but this was supported by all parties so that is really carried by the voters in Germany, by the parties. But that is also a reason why, as economists, we want to make sure that this transition is done in an economically efficient way, not to burden too much the households and the industries that would of course cause resistance to this transition. And we have to show that this is actually a positive vision for the German people, we have to make it in an efficient way that does not cause too many wasted resources on the way to this long term goal.

**Wu Libo:** To take this in a different direction, coal is a serious environmental and air pollutant, yet Germany is one of the world's largest coal producers. Why is Germany so far not able to decrease its coal dependence?

**Andreas Löschel:** If you look at the German electricity system you notice that coal plays an important role. Around 45 percent of the electricity in Germany is produced by coal, and that has been like that for a long time. Coal was actually one of the traditional bases of the German electricity system, and it still is today. Coal is an environmentally dangerous and unfriendly way of producing electricity, especially lignite, but in Europe we have an emissions trading system. The idea was to cope with the CO2 emissions from coal with the emissions trading system. Yet as we have just discussed, the prices in the emissions trading system are very low at the moment, around € 5 per ton of CO2, which means that shifting away from lignite to gas powered electricity generation is not possible, or not economic at these prices. Gas prices went up, coal prices went down, and CO2 prices are very low, so we are actually continuing with coal production.

I think people are not so worried about local air pollution. That is an issue which is not so much in the forefront of discussion, as there are environmental regulations to deal with local air pollution problems. For example, we have a big coal plant right in Mannheim, yet there was very little resistance to building a new power plant in Mannheim because people are convinced that this local air pollution problem is taken into account by various measures. We also, however, have the global pollution problem, and there we see that the last year actually showed an increase in the use of coal. Our main instrument is the emissions trading system, and we don't want to take really concrete measures apart from regulations in phasing out coal power. We want to do that with market based instruments, and the market based instruments do not have sufficiently high prices. We would probably need prices over € 20 per ton of CO2 to induce this shift away from coal power. Lignite is a domestic resource, actually the only domestic resource Germany has; it is in fact the fifth largest reservoir of lignite in the world, so this is very competitive in the moment. I think as long as we show that we are on track with our CO2 targets, there will be no other measures. If it becomes obvious that the ETS is not delivering on this track, I think that people will think again about the use of coal in Germany.

**Wu Libo:** Maybe by then CCS will have become more cost effective.

**Andreas Löschel:** That is, of course, another issue. We have already talked about shale gas. We have seen

that there is quite some scepticism of the German people concerning these kinds of technologies, so they actually oppose shale gas use, and they oppose CCS. We therefore stopped most of the demonstration projects in Germany, which is a pity because it might be a technology for the future. I am still convinced that will be a technology of the future, but that it will not be applied first in Germany. Actually, given the global nature of the problem I think it is better to have China being a front runner on that. Obviously you have other problems of coal use in China such as problems of air pollution due to inefficient coal plants. I guess the situation in Germany is just different: the coal plants in Germany are much better than the average coal plant in terms of efficiency, in terms of environmental impact. In our case it is mainly discussed through the lens of the ETS, and so I think we will not see any concrete interventions with respect to coal power because the problem is posed differently in our context.

**Wu Libo:** About the German energy's strategy in North Africa, where are 20 percent of solar energy. In 2009, Germany started Desertec to catch up this energy from the desert to Europe. Can you talk about it?

**Andreas Löschel:** Desertec was a visionary project of the German industry. The idea was that we will get part of our energy from regions in the north of Africa that are more abundant in terms of solar and wind energy than Germany. This was initiated in 2009, but I think the enthusiasm has cooled down a little, though the project is still continuing. I think it will continue under a different perspective. It will be less about delivering energy to Germany, which is a difficult project anyways, with the high voltage transmission lines that would have to go through Spain and France to Germany. Nowadays we see it more as a possibility to develop the North African region in a sustainable way. So it is not so much about delivering energy to Germany, but more about delivering renewable energy to the North African countries in the process of their development. Many of the companies have withdrawn from the project, so it is not as strong as it was some time ago, but I am sure that they will not drop it completely. This initiative will be shifting focus; in the region we had the Arab spring, this new movement which we should support in terms of its energy development. That could be the contribution of the German industry, providing technology for a more sustainable development in the region.

**Wu Libo:** Since the regional distribution of renewable energy production in Europe is quite uneven, will this necessitate gas and clean technology as a balance?

**Andreas Löschel:** At the moment in Europe we have individual systems of support in each of the member states. Of course we know that the potentials are distributed unevenly in Europe, especially if you think about solar power in the south, hydropower in the north, wind power in the north west of Europe. At the moment we are not really exploiting these potentials because we have individual systems of support in the different member states. One of the proposals which I think was a good proposal was to build a European wide system of renewable support, which would mean that we make better use of this difference in resources, and have for example more wind development in the north west or more use of hydropower in the Scandinavian countries. That is something we don't have at the moment, which means that Germany, for example, is regretfully not the sunniest country in Europe, but the biggest PV user in Europe. That is not efficient, and we think we can develop a more efficient system in Europe. Since we want to work towards a unified European energy and security market anyways, this would not pose problems in the long run in terms of energy security issues, because we will have one market for electricity with a much improved grid between the different member states. Then you can think about having a better distribution of the renewable sources over Europe. At the moment we don't do that, and we don't have the infrastructure ready in order to transport renewables over long distances, but that will be something that will be absolutely necessary in this energy transition. We already have this vision for Germany, because in Germany we have the same uneven distribution: we have most of the load, the consumers, sitting in the south, while we have most of the production of wind in the north. If we want to increase the production of wind in the north we will have the problem of transporting electricity over long distances, wherefore we want to develop new HV TC networks that will transport the renewables over long distances without a big loss of energy. This technology will hopefully be used for taking better advantage of the possibilities of the resources available in Europe.

**Wu Libo:** Isn't the energy transition a show of romanticism?

**Andreas Löschel:** I wouldn't call it romanticism, because in the end we are facing serious and very real long term challenges. The question is how we address these long term challenges. Long term benefits are coupled with short term losses - that is the problem that everybody is facing. All governments have to make the decision of whether they are willing to incur these short term costs in order to improve the long term situation. The German government sees its responsibility in addressing these long term targets, and it is trying to act on this

responsibility. It should not act in a foolish way, so of course we have to make sure that our living standards are not endangered by environmental policies. On the other hand we have a responsibility as one of the leading industrialized countries, and we want to step up to that responsibility. We do this not in a romantic manner, but in a manner that takes an advantage of opportunities in the long run. We know that we have scarce resources, we know that we have a climate problem which is going to accelerate in the future. So we follow a long term realism, by trying to be front runners in energy efficiency, in resource efficiency. We think that in the long run this will be the real challenge, and we want to be on the fore front, instead of lagging behind. But as I said, we always have to tread carefully, in order to make sure that these policies do not impose short run costs and short run problems to industry or households - that is something you have to balance all the time.

**Wu Libo:** Ok. The theme of this year's Forum is Harmony in Diversity. Are cap and trade systems like the European ETS a harmonious solution to climate change utilizing the diversity of market participants?

**Andreas Löschel:** The EU ETS is trying to do exactly this, it is trying to find the cheapest solution to reduce CO2 emissions, independent of emissions in the European Union. This is the most efficient way to reduce emissions, but you may be burdening member states differently by this policy. Therefore there is a system in place which tries to harmonize the benefits and costs of these policies, meaning that the different member states get different shares of the receipts of the CO2 ETS.

We are now moving mainly to an auction system of emission quotas, whereby the income from the auctioning is distributed to the different member states. This distribution tries to take into account the burden that the different member states have to carry, their economic prosperity and situation as well as the environmental soundness of the policy. We therefore look to places where there are the least costly solutions, but we also try to balance the burden that comes with this least cost solution by redistributing the income from the auctioning to the member states in a way that was agreed upon by all participants. In the construction of the ETS and now also in the continuation - we are in phase 3 that started in 2013 - we enacted new rules for these distributions of the benefits from the environmental ETS. Therefore as you said, this is something that combines an economic approach with a burden sharing between different member states.

**Wu Libo:** And yet you said that the price of CO2, for example, is too low at the moment to effectuate a change from coal to gas.

**Andreas Löschel:** The price is low, but I think we have to take into account why it is low, and understand that this is to some extent a reflection of the economic crisis we had after 2009. The demand for certificates dropped strongly, so we have an excess demand of certificates on the market - so we have to learn that the system has to be better sheltered against economic fluctuations. Another reason for the low price is the extensive use of cheap permits outside of the EU through the flexible mechanisms. This is another lesson: we have to be very cautious about how many certificates we want to have in our system. We have a lot, which added to the surplus in emissions. The third reason is that we gave a lot of certificates to the industry for free, and given the economic situation at the time we were very generous with free allocations. In some cases companies got more certificates than they had actually needed for their emissions, so they could even sell certificates and profit from them. When we discuss reforms of the ETS we have to address all three components. This, however, will be something that will not be fixed quickly, because the third stage of the EU ETS has just started, and I think many of the EU member states are unwilling to change the rules of the game just five months after starting the new phase. We are now discussing the targets for 2030, the targets for CO2, for renewables, for energy efficiency. We are also discussing whether there should free targets again as we have them at the moment for the euro, and we are also discussing how stringent these targets are. I think we have to take into account this situation, especially when we move from 2020 to 2030. We have to set ambitious targets to show investors that while the prices might be low now, we have a long term dedication to achieve our targets, so it will pay off if you invest in carbon technologies today. You have to take into account that most of these investments are there for 20+ years, so these are long term investments. Investors must see that the current situation might continue for the next years, but not in the long run. If we factor this in, we can again induce more investment in carbon technology. I think that is something that we have to start very quickly, setting this ambitious target, taking into account the three problems that we face with the ETS today.



## The World Financial Architecture Is Moving Towards Multipolarity

### Hélène Rey

Professor of Economics, London Business School Fellow of the British Academy. In 2012 she received the inaugural Birgit Grodal Award from the European Economic Association honoring a European-based female economist who has made a significant contribution to the profession of Economics. In 2013 she received the Yrjö Jahnsson Award, shared with Thomas Piketty.

■ Interviewer: Lin Shu (Professor, School of Economics, Fudan University)  
Editor: Silvan Griffith



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*If you are going to go for a currency union, you should also go, as a strict minimum, for a full banking union at the same time.*

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**Lin Shu:** You have done considerable research on international monetary systems. In your view, what are the main problems of the current system?

**Hélène Rey:** In my view, the current system has led to an excess accumulation of reserves. You can see the accumulation of reserves in one way, which is the effect it has on interest rates. As we know, they have been trending down, which we can probably blame for some effects of the financial crisis. Since the interest rates are very low, you can have more risk-seeking from the point of view of financial institutions, so one possible way to solve this issue is to help countries building contingent precautionary savings, instead of having reserves. If you don't have the availability of contingent precautionary savings via, for example, the International Monetary Fund (IMF), then your line of defence is to accumulate foreign assets, like China. If, however, you have a better-functioning lender of last resort, a better IMF, then you do not need to accumulate so many precautionary savings. Instead, what you can do is to grow more on credit lines. In a report I wrote with Emmanuel Farhi and Pierre-Olivier Gourinchas we propose to increase the amount of resources available to the IMF to allow it to borrow on the market directly. Therefore, in crisis times people can borrow from the IMF, countries can borrow from the IMF, so to put in place more formally the system of swap lines, that was put in a very ad-hoc way in 2008 at the height of the financial crisis, and that helped a lot for the dollar shortage. But it was a very ad-hoc way of doing things, and we suggest there is a way of making things a little more formal, in order to have a more efficient defence.

**Lin Shu:** I noticed that you created a very interesting idea that is called the new Triffin dilemma. Could you elaborate on that, since you believe that it is one of the causes of the problems of the international monetary system?

**Hélène Rey:** I'm not sure if it is one of the causes of the troubles, but I can certainly elaborate on what we call the new Triffin dilemma. So turn to gold, that is to say you could convert your dollars into a fixed amount of gold, but there came a time when external demand for US dollars was very large, so US liquidity was very large in the external world outside the United States, so in the 1960s, there came a time when people had to have doubt whether all the external dollars could effectively be redeemed into gold at the fixed

exchange rate, simply because the stock of gold was not growing as fast as the external demand for dollars, so at some point you would have to ask the question: with all the people who have these dollars, are they able to convert them back into gold. And if you believe that this is not possible, then you have the possibility for some kind of run, a run against the dollar. If I have dollars now, I want to convert it the first into gold, because if I wait, I may not get my gold, right? So that's the idea behind the old Triffin dilemma.

What we learned from this is that a similar type of issue may arise in today's world. The dollar is not backed by gold anymore, so it is not exactly the same, but what underpins the value of the dollar and the value of US government bonds is the United States' fiscal capacity. It is the ability of the US treasury to deliver on the value of US government bonds, US treasury is now being held abroad. Now the demand for this US liquidity, the demand for these government bonds is growing fast, because the world outside the US is growing sometimes faster than the US itself. Therefore there comes a point again: where there is a lot of external liability for the US in gross terms where there is a big stock of external liabilities of external government bonds which are backed effectively by the fiscal capacity of the United States. But the size of the US - and its fiscal capacity relatively in the world - is probably decreasing, so at some point we are again faced with the legitimate question of whether the US fiscal capacity will be large enough to back all this foreign liquidity. We may even consider scenarios in the future in which this will not be the case. At that point, countries that want to diversify a little bit more beyond this dollar liquidity may ask for different types of assets, different types of currencies as liquid assets.

And looking forward very far ahead, one can ask what countries can actually issue international currency, so if we go away from the dollar, what is going to replace the dollar? And it is a question which is obviously full of uncertainty, but one certainty, if we look in history, is that it is always the big countries, the big economic masses, or the big traders in the world which have given international currencies. So we had the sterling when the UK was the dominant economy and the big trading power, and then we shifted to the dollar when the US became bigger, much bigger in fact than the UK, and when it became the biggest world trader in terms of trading. So looking forward, in terms of economic masses, we have the EU area on one side, but right now the EU area has governance issues to overcome. Then there is also China in terms of economic mass. However, to issue an international currency you do need quite developed financial markets and you would need capital account liberalisation and things like that.

**Lin Shu:** So you mentioned that economic mass

is very important, but I also know that you have a paper that talks about the role of trade. In that paper you point out that the financial centre of trade is more important than the single economic size, in terms of international currency.

**Hélène Rey:** Right, but what is usually important is the magnitude of the trade flows and you usually have to be a large economy to have large trade flows. It is not one for one, but if we look again historically to the UK, we see that it was the first country to have an industrial revolution, it had the most advanced economy and it was also the biggest trader. Then the US became the largest economy, and it became very important in international markets for goods and services. So in that respect, we wouldn't see Luxemburg, however stable its currency might have been before joining the Euro, you wouldn't see a country the size of Luxemburg issuing international currency.

**Lin Shu:** Do you think that the future of the world financial architecture is going to move towards multipolar system or that there will be a currency that will be used as a common currency for the whole world? Which one do you think is more realistic?

**Hélène Rey:** I do think that the trend is towards more multipolarity, and this is simply because of a shift in relative economic mass. We have seen a shift towards Asia in terms of GDP, in terms of trade, and of course in terms of population. Let's look at history: When the UK got smaller relative to the US, the sterling remained the main international currency for a while, and in particular, London remained an important financial centre for a while,

This happened even though the size of the UK economy was relatively small compared to the size of the US economy, so there was a lot of inertia. When you are a key currency you are used by many people, there are very few incentives to deviate from this equilibrium. If you are the only one who decides to trade tomorrow using the RMB, then it is not going to be a very efficient process for you, because you will have to search for your counterpart. Everyone else is using dollars, so it is going to be much easier finding someone trading dollars, then the incentive to deviate is against you. There is a lot of inertia between the systems, so there is a time lag between the time that economic masses shift in real terms, GDP, population, trade flows etc., and the time when there is a financial change to another currency. So we saw that from the transition from sterling to the dollar, and now what we are seeing is that the economic mass is indeed shifting to Asia in terms of GDP and trade flows, but the financial flows have not really shifted yet, and if history is of any guidance, this will take time, especially if the development of capital markets in something like

China is just not there yet, so we are really talking about a very long process here. But I think the trend is definitely towards multipolarity.

**Lin Shu:** People here in China are very interested in how the RMB can become an international currency, and also I know that Shanghai has the dream of one day becoming a financial centre, not only a regional financial centre but a world class financial centre, like New York or London. But of course that takes a lot of time, so what are the main determinants of a world class financial centre? Or what should a country do in order to achieve this goal?

**Hélène Rey:** Well firstly it seems that in order for your currency to be widely used you would have to withdraw quite a few limitations on convertibility. It is still the case in my understanding that there are lots of restrictions on portfolio flows and FDI, and so one of the first things to do is to make the currency more freely tradable. That obviously has to be done carefully, because you don't want massive portfolio flows, nor massive volatility if you are not hedged against the volatility. You have to take a careful look at the balance sheets of various financial institutions in order to make sure that this is done safely, and all the regulatory environment has to be developed further. This is a very important development for the state. Knowledge builds gradually and you need a lot of human capital, so there are lots of agglomeration effects. You need to build a critical mass of know-how around a financial centre.

**Lin Shu:** Regarding the issue of capital account openness and a lot of emerging countries, they want to open their capital accounts, they know the benefits of having free capital flows, but they worry about protecting their currency from capital flows. What should policymakers in emerging countries do to enjoy the benefits, but also to prevent a crisis?

**Hélène Rey:** This is obviously a very long question and a big issue in international economics. It seems to have indeed been the case that a lot of emerging markets which have opened up have been very procyclical and destabilising. Not only emerging markets have suffered in fact, if you look at some of the capital inflows into Spain or Ireland. When you have free capital mobility and you are not checking what is going on within particular credit or short term flows, then it is very likely that you at some point get a capital flow bonanza which is going to overflow your financial system and eventually lead to a bubble in asset prices. If it is a bubble in real estate prices then that is very serious, and you will have a crisis which is extremely damaging and can potentially blow up your entire financial system. These are things that are very dangerous. We have suffered from this procyclicality of capital flows in many crisis situations, the last one being the euro

area crisis, so we have to be very careful with that.

So what can we do? Firstly we have to be aware that free capital mobility may not be the optimal thing to do at all, in particular when we look at credit flows which sometimes turn out to be more procyclical than, say, FDI flows. So what do we do? We have to put together a set of tools, which we can call macro-prudential tools( or capital controls depending a bit on what their target is and what they are doing) which allow you to dampen the procyclicality of the capital flows, taking the characteristics of the country's market into account. In particular on the real estate market, you have to be very careful. There are capital flows usually in domestic distortions such as subsidies to real estate, for example. When there are a lot of flows coming in from abroad sometimes these subsidies interact with these flows and with credit growth to create bubbles. If necessary, we therefore have to remove the subsidies, do some fiscal adjustment within the country, adjust loan-to-value ratios, adjust debt income ratios and be very careful about lending standards. So we want to keep a close watch on these issues: on a micro level through the supervision of banks; on the macro level through fiscal policy and macro prudential policy. We may want additional capital cushions at the macro level to increase the capital requirements, to make sure that this procyclicality does not occur so much. There are lots of people that have experimented with such sets of tools around the world and now I think we can learn a little bit more about how to do that.

**Lin Shu:** So, careful surveillance and some kind of prudential mechanism seem to be very important for emerging countries in terms of capital accounts. You mentioned earlier that the world GDP is shifting from the West to Asia. We know that the economic level of integration is already very high in European countries, but it seems that the economic integration is low in Asian countries. Should Asian countries take such steps as European countries did several decades ago?

**Hélène Rey:** Integration has different meanings. Firstly, the European countries tried to create a common market for goods and services, and this seems to have been to have been a very positive step. The integration of product markets has created lots of regulatory issues that have certainly been challenging in the European context, and would probably also be challenging in the Asian context. This first step is extremely important before even considering going towards a currency union. Of course, if you make that step and try to make an integration market, then the introduction of a common currency is a way of completing the integration of the region. This is a desirable set, provided you learn from the European experience: if you are going to go for a currency union, you should also go, as a strict minimum, for a

full banking union. This is because if you have banks with market capitalisations which are several times the GDP of certain countries then you have a link between sovereign risk and banking risk which has proven deadly in the crisis. The only way to break that link is to have a full banking union, i.e. to keep the size of banks relatively small compared to the aggregate size of the area. Market capitalisations of Irish banks, for example, had several times the size of the Irish GDP. When Irish banks went bankrupt, they actually bankrupted Ireland. The same thing happened in both Iceland and Spain, so this is a very important lesson which should be adapted in the context of the Asian financial system. This is something that the Europeans have - and still are - learning the hard way.

**Lin Shu:** You just made a very interesting point. You highlighted the importance of a banking union, but I heard a lot of people say that it is important to have a fiscal union. Do you think it is also necessary to have a fiscal union?

**Hélène Rey:** I happen to think it would be desirable to have a fiscal union, but I do not think it is necessary to have a fiscal union for a viable currency union. I do think it is necessary to have a banking union, though. If you do not have a banking union, I believe the currency union will end up being unstable. However, please note that in a banking union you do need to share your resources a bit, in the sense that you need at least some amount of common resolution fund, full of common money that you can use if there are big banks that go bust. You need to be able to have a resolution for these banks and you need to be able to have a fiscal backstop, just in case of a problem. So you do need a minimum of resource sharing, but you do not need a fully fledged fiscal union. I think this makes the whole process more politically feasible, because a fiscal union requires considerable political will from all member states in which they give up a lot of sovereignty, and I do not think we are quite ready for that yet. So although it is desirable, I do not think it is really feasible for the moment - while a banking union might be.

**Lin Shu:** What is the situation in the euro area and how will we solve it?

**Hélène Rey:** It depends completely on the political steps that are still to be taken. We have stabilised the situation for the moment, and now it is up to all the euro area countries to bring a little more momentum into their economies, by doing some more reforms and also by having more coordinated fiscal policy and a little bit less fiscal austerity, a little bit more aggregate demand, so that you can get out of the feeling by having more accommodating monetary policy and fiscal expansion when possible, by having a little bit more expansion at the EU level in terms of the European budget. So there are things that definitely can be done there. Each individual country has to take

steps which depend on their respective situation.

**Lin Shu:** Should the EU further extend its monetary policy?

**Hélène Rey:** Yes definitely. We have seen that suspend-suspense-sustain, the ECB has taken some very important steps. One step was the long term refinancing operation, the LTRO, which has helped the banking system. The second very important step was the announcement of the OMP by the ECB which has effectively stabilised the yields in some of the bond markets of the periphery. These were very important steps, particularly the OMT, which allowed for a better transmission mechanism of monetary policy, and so now still more steps can be done in terms of expansionary monetary policy, but these were really decisive steps.

Regarding monetary policy, I noticed a very interesting shift in monetary policy and the link between money growth and inflation after the late 1990s. Before the middle 1990s there was a very tight relationship between money growth and inflation in major economies, but since the middle of the 90s this link seems to have disappeared.

I have not personally done any research on that topic. I will, however, point out that this drop in velocity, this link which has been broken between the monetary growth and the inflation, is something that we have also observed very clearly during the great depression. If you look at the statement of Irving Fisher written in 1933 that was published in *Econometric* and in which he describes all the symptoms of the great depression, he has very precise charts in which he points out exactly what you were saying. The link between money growth and inflation completely broke and, again, it was because there was a lot of holding and precautionary saving. Therefore, the money that was printed - and that was on the balance sheets of the commercial banks and the reserves of the central bank - was not finding their way into the economy at all. So there was no credit growth, and you could say there was a credit crunch.

That was in the Great Depression, and that is very similar to a pattern that we have observed in the current situation. It is well described by people like Paul Krugman, and it has also been talked about in the context of Japan. This is a liquidity trap, where there is a lot of cash holding. There is a lot of liquidity being created, but since it does not find its way into the economy we do not have inflation - in fact, rather mild deflation. So this is something that does not come as a surprise, because people have looked at the liquidity trap issue, have read Krugman, have read Keynes, have look at the Irving Fisher paper of 1933. It is not normal for the economy to behave like that, but it is something that from a model point of view is known.

## Feedback &amp; Suggestions

The Shanghai Forum (2013) aroused a strong reaction among its guests, some of whom wrote letters to the Organizing Committee after the meeting, expressing their gratitude to the organization work, their further reflection on the discussion topics and their expectation of the Forum's future development.

**Robert A. Mundell**  
Professor of Economics,  
Columbia University  
1999 Nobel Laureate in  
Economics ;  
Opening Ceremony Keynote  
Speaker

"I think this forum is really exceptionally interesting. And what I found very valuable about it is the great diversity of the speeches, coming from people with different expertise, talking about different things. And it has created a kind of a balanced picture and a wide range of things. I think it's really really valuable. The speeches I read about China have probed deeply into a high level where people were not just superficial level of just newspapers but it's gone deeply into the causes. I think they've made a very good choice of speakers and subjects."

**Robert Zoellick**  
The Eleventh World Bank  
Group President ;  
Opening Ceremony Keynote  
Speaker

"I think it has been an excellent conference. The opportunity to bring people from all across Asia and other regions of the world has very much enriched it. I think this is a wonderful showcase for Shanghai and Fudan, and I think it was particularly beneficial that it was done in contact with KFAS because I think it also strengthens the ties between Korea and China.

So I look forward to learning about the outlook of the next year's conference and of cause the events of next year will probably define what the conference seeks to address.

Hats off and compliments to the organizers."

**Alessandra Guariglia**  
Director of Department of  
Economics, University of  
Birmingham;  
World Economics Panel Guest

"I really enjoyed the Shanghai Forum and am very honored of having been invited to it. I think the whole event was extremely well organized from all aspects."

**Paul Yip**  
Professor of Sociology,  
University of Hong Kong;  
Urbanology Panel Guest

Paul Yip, published an article on MING PAO DAILY NEWS titled Reflection, Innovation and Progress of the Shanghai Forum, praising this year's forum for having a richer variety of topics and introducing emphatically the ideas and reflections resulted from discussion of the urbanology panel:

"The three-day forum had various topics for discussion such as national security, financial crisis, urban construction, etc. The session I attended deliberated on Asian urban development, aiming to find out how Asian cities drew development momentum from innovation. More than 50 experts from different countries were in attendance and exchanged ideas on their own countries and cities' innovation experiences as well as how to put urban innovation theories into practice.

The discussion concludes that different areas of Asia need to make development in terms of their own situation. The key point lies in continued innovation and progress to face challenges in the process of development. Innovation involves not only improvement of technical skills, but also reflection and promotion of management and planning,

so as to create a high-quality urban lifestyle which meets the needs of various kinds of people by amelioration of their living standard. According to Prof. Ren Yuan from Fudan University, China's urban development should focus on deep construction rather than image project, requiring, on the one hand, top to bottom construction and reform, while on the other hand, voluntary personal practice from bottom to top. The rapid development of Shanghai has made improvement in both hardware and software. Nowadays, Apps is widely used in daily life, for example, hailing taxi with voice control, and in this respect, HK has somewhat lagged behind."

**Li Bijian**  
Counselor, Department of  
Asian affairs, Ministry of  
Foreign Affairs of the PRC;  
Politics Panel Guest

"I felt honored to participate in the discussion of the panel "Asia's Wisdom: Approaches to Disputes" and gained a lot through its heated discussion, collided views and valuable proposals. I was especially moved by the special session hosted by myself about Sino-Japan relationship, in which there were intense debates between two different academic groups. Just like what I concluded in the summary of the session, we could not choose our neighbors as we wish, and China and Japan, as close neighbors, have to stick to the principle of peaceful coexistence. Though different in opinions, the spirit of the Chinese and Japanese scholars sitting together to exchange ideas is encouraging. The forum will boost my future work greatly."

Perspective Highlights

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

**Tae Yong AHN**

01  
Perspective

Partner, Barun Law Firm of South Korea;  
Law Panel Guest

**Asian Contract Law and Its Legal Principles - Freedom of Contract vs. Social Justice**

During the 60 years after the Second World War, global economy had developed over-heatedly and natural resources had been exploited excessively. Under this circumstance, oriental wisdom and moral value is gaining more and more attention. The experience in participating PCAL, I find two important issues: methodology and value idea. The second issue mainly discussed the conflicts between social justice and the freedom of contract. Due to the peculiarity of Asian's colonial history, Asian countries always emphasize the importance of social justice. We should break the "victim-thinking mode" to amend the excessive influence imposed by social justice on the performance of contract. Contract is a right that people can decide what they themselves want to do, but this freedom is restricted from all circles of society, thus we must adhere the principle of contract freedom.

**Kirill Barskiy**

02  
Perspective

Officer, Russian Foreign Ministry;  
Politics Panel Guest

**Asia-Pacific countries need to jointly build a new security paradigm on the basis of mutual trust and understanding.**

- Asia-Pacific security is facing new challenges. People of this area are pessimistic about some current situations such as network security.
- The Asia-Pacific security system lacks consistency. It's led by USA and relies too much on deterrence.
- The new Asia-Pacific security system should be based on mutual trust and understanding between nations. The disarmament negotiation of the Sino-Russian border region sets a positive example of mutual trust and understanding between nations.



**Chen Xiangming**

03  
Perspective

Professor of the University of Chicago, Illinois;  
Urbanology Panel Guest

**Steering, Speeding, Scaling: China's Model of Urban Growth and Its Implication for Cities of the Global South.**

There are 6 "Ss" of China's Model of urbanization, that is, "state steering", "speed and scale", and "spread and shallow". In other words, the characteristics of China's urbanization are government-steering, high-speed, large-scale, widespread but shallow. However, China's Model of urbanization has its strengths as well as weaknesses. Its strengths are rapid economic growth, increase of the people's wealth, larger middle class, better and more infrastructures, and the increase of its openness and integration. Its weaknesses are lack of efficiency, environmental degradation, inequality, the decrease of agricultural land, unbalance between economic and social development, unsustainability, etc. Therefore, other developing countries should combine their own situations and learn lessons of China selectively.

**Chen Xuebin**04  
Perspective

*Executive Vice Dean, Institute of Financial Studies, Fudan University;  
Finance Panel Guest*

**Monetary High becomes the Major Countermeasure of Many Countries to Their Crisis.** Countries are in the middle of transforming their means of intervention to intervening indirectly by using super currency and the following devaluation of their currencies for their own political and economic interests.

**Under the Current International Monetary System, the Spillover Effects of Super Currency are Fairly Serious.** Super currency of certain currencies will cause serious domestic inflation and substantial international depreciation of their foreign exchange rates. The unordered competition in the international monetary system caused by competitive depreciation of currencies requires new restraint mechanism.

**The Visualization of the International Monetary System Draws Attention from the Self-balancing Interaction.** A basket of currencies replaces single currency as the nominal anchor and thus single currency is less depended on. Stable international monetary system is born thanks to the focus of the interactions of currencies on a basket of currencies. The impacts of the fluctuations of foreign exchange rate of certain currencies on the international monetary system shall be controlled internationally, and the spillover effects of super currency of certain countries shall be restricted domestically. Real effective exchange rates shall be revised according to the status quo of inflation and trade imbalance shall be rectified by adjusting the foreign exchange rate automatically according to the trade balance.

**Keith Crane**05  
Perspective

*Director of the RAND Environment, Energy, and Economic Development Program;  
Energy Panel Guest*

**Prospects and Pitfalls of Alternative and Renewable Motor Vehicle Fuels**

The alternative and renewable motor vehicle fuels share both prospects and pitfalls. Locomotives take the lead for liquefied natural gas use for transportation. Compressed natural gas still confined to buses, deliver vehicles due to the cost. Federal law drives production of renewable fuels. Standing at the end of trade protection, major cost of renewable fuels is growing and collecting feedstock. For renewable fuels, like cellulosic ethanol are still encountering technical challenges.

**Gao Jinhua**

06  
Perspective

General Partner and President, Shanghai V-Gateway Capital;  
China Financiers Club Roundtable Guest

**Misunderstanding of the Restructuring**

The reason of low effectiveness, slow progress and the more and more blurred condition of the restructuring development of China is rooted in the so-called institutional obstacles, which is mainly in four aspects: the market did not play a fundamental role in the allocation of resource, the worship of GDP, the distortion of the price caused by the allocation of resource by government and the blank of the an environment that encourages innovation and creation. "Haste makes waste", "arrogant" and "fabled" are some main misunderstanding of the restructuring. I think the restructuring and development of priority should start from the following two aspects: one hand, the conceptual leap and breakthrough of government and the other, precision and enhancement of measurements.

**Hans Genberg**

07  
Perspective

Assistant Director, International Monetary Fund;  
Finance Roundtable Guest

Capital account management and monetary control are the two directions of safe assets supervision. Capital account management will cause complicated European integration problem. Financial regulation: people used to consider that a country should own a highly developed financial market with high liquidity, but now the controls become more and more.

**Cross-border transactions:** once we speak of cross-border transactions, regulation will be mentioned. For example, three countries namely A/B/C, want to adjust and integrate better among countries. The capital flows between developed countries and developing countries is very dangerous, therefore some control should be done between countries. The border is an important control point.

**Optimal financial district:** it is just a financial area rather than a monetary area.

**He Mingsheng**

08  
Perspective

Dean, Institute of Social Development, ECUPL;  
Communications Panel Guest

**Free Expression and Legal Regulation: An Empirical Analysis of Rumor in micro-blog**

Rumors on micro-blog is kind of internet information which hadn't been confirmed. There are two sides inside micro-blog rumor: essential truth which needs to be responded and essential false which need to be confirmed. So, the rumors in micro-blog have social functions on two aspects: the internet fraud aimed at personal interest, and the supervising by public to government.

The critical point of legal regulations for rumor could be "Altruism". To protect the Altruism rumor is to follow the "legal norm". On the contrast, to restrict the rumors has violated the valid principle of law, restricting the rumors has harmed the freedom of expression that should be protected.





**Jiang Yihua**09  
Perspective

*Director, the Center for Comparative Studies of Modernization; Professor, Department of History, Fudan University; Culture Panel Guest*

- After PRC's foundation, CCP formed three different theories—"Three World", multi-pole world and new pattern of relations among great powers-in chronological order.
- To establish a better world needs recognizing the value of every civilization, tolerating each other and seeking win-win.
- In the future, as to our goal for Sino-America relations, the two civilizations should understand each other. As for Europe, we should be aware of the complexity of European culture and notice that we two can find so much in common. China should have more room for conversations and cooperation.

**Kong Lingzhi**10  
Perspective

*Deputy Director of National Health and Family Planning Committee (Former MOH), China; Public Health Panel Guest*

### **Challenges and Strategies of Non-communicable Disease (NCD) in China**

Affected by the changes in demography and disease spectrum and the industrialization, NCD in China is still at a high burden, and it is in the rising period. China has established a complete system of NCD control and prevention. A lot of work on health promotion has been done. For example, hypertension self-management team is a pilot implementation. Multi-sectional cooperation is carried out, in which the roles of the government, enterprises and the people is clearly empowered. For example, social departments participate in the activities to create a healthy city. The model districts of NCD comprehensive prevention and treatment are promoted.

**Christopher Marquis**11  
Perspective

*Harvard Business School; Environment Panel Guest*

### **The uncertainty of China's environmental regulation and corporate response to environmental protection**

- In the field of sustainable development, we need to coordinate and solve the problem of human capital deficiencies.
- Companies and governments should work together to solve the problem of environmental management.
- China should not only implement international standards, but also establish its own environmental standards towards domestic companies.



**Jose Antonio Puppim De Oliveira**

12  
Perspective

*Assistant Director and Senior Research Fellow, United Nations University;  
Editor-in-chief, Public Administration and Development;  
Public Administration Roundtable Guest*

**PPP in Environmental Services: Opportunities and Challenges for Co-Management in the Waste Sector**

Governments and state organizations are important, but need coordination within other governments/ sectors and other sectors of the society.

Win-win (eco-eco) situations exist, but there are still several institutional obstacles, including:

- lack of information on how to recycle, reuse and reduce;
- lack of use or markets for recycling/composting materials;
- lack of collective action to increase scale of collection;
- informality of the recycling sector;
- lack of trust on public agencies and corruption.

Countries should try to move to “ideal” partnership with jointly determined goals and collaborative and consensus-based decision making.

**Jeffrey Schott**

13  
Perspective

*Senior Research Fellow, Peterson Institute of International Economics;  
Urban Economics Panel Guest*

**Regional Trade Agreements and US-China Trade Relations**

Main idea: the paths of trade integration taken by China and US may arrive at the same end by different means or roads.

- TPP is aimed at establishing a high-standard free trade area which involves agreements on multi-faceted aspects in the international trade with legal effect.

Compared with RCEP, its object and contents are similar but legal effect is emphasized.

- The two agreements mentioned above are complementary rather than mutually exclusive, and their effects can be accumulated. Thus a number of countries are members of both agreements.

- TPP is not established to contain China. Rather, it is open to China and its members hope to establish close trade relations with China to better compete with it.

- However, TPP fails to provide an ideal mode for Asia-Pacific trade relations. It is suggested that the advantages of both TPP and RCEP should be combined to establish a mixed mechanism, a unique mode for Asia-Pacific trade, so as to promote the integration of Asian economy and the US-China trade relations.



**Wan Guanghua**14  
Perspective

*Economist of the Asian Development Bank;  
World Economics Panel Guest*

### **Urbanization and the Environment: An Asian Perspective.**

This tackles two growing concerns—environmental sustainability and rapid urbanization. Asia is home to almost half of the global urban population and is urbanizing at a pace faster than any other region, resulting in an unprecedented growth in urban residents and increased number of densely populated megacities. Consequently, the region will be confronted with even greater environmental challenges that are already serious, including air pollution, congestion, CO2 emission, deprivation in water and basic sanitation, and growing vulnerability to natural disasters. But with urbanization comes the rise of the middle-class and property owners, the development of the service sector, declining fertility and increased educational attainment, and more importantly, innovations in green technology. These urbanization-related forces and mechanism are important for attaining a win-win scenario of environmental improvement and economic growth. Through establishing and exploring the environment-urbanization nexus in Asia, I offer a cautiously optimistic environmental prospect for Asia as the region urbanizes.

**Wu Xinbo**15  
Perspective

*Executive Vice Dean, Institute of International Studies, Fudan University;  
Politics Panel Guest*

### **Peace-oriented power is critical to China' s peaceful development.**

- **There are two pillars to China' s peace-oriented power construction:** the deeply-rooted conception of harmony in traditional Chinese culture; the Chinese understanding of cooperation.
- **China realized the importance of cooperation in the environment of globalization:** The notion of win-win cooperation requires countries to seek common interests on the premise of mutual respect; Every country should recognize the diversity of the world and retain the balance of interest.
- **There is enough international space for China to put into practice its peace-oriented power.**

**Yang Jiemian**16  
Perspective

*President, Shanghai Institutes of International Studies;  
Think Tank Roundtable Guest*

### **The policy trends since the New Leadership**

- **Continuities.** Continuities include, among others, Independent and peaceful foreign policy, Road of Peaceful Development, win-win cooperation, Five Principles of Peaceful Co-existence, multi-polarity and a fairer and more justified international system.
- **Conceptual Changes.** Global power worldviews; Concept building; Re-defining strategic opportunity; Clearer standing on core national interests.
- **Priorities & Practices.** Attaching more strategic importance to neighboring countries; Advocating for new type of major power relations; Showing readiness to tackle with hot spot issues; Having both firmness and flexibilities in defending sovereignty and territorial integrity.
- **Opportunities & Challenges.** Opportunities: the fast development of Chinese economy, politics and culture; favorable international atmosphere; Challenges: China needs to tackle its internal affairs which grow more and more complicated; aggravated disputes on the sea; maintain the image of a great power; co-existence with the whole international world

**Ye Jiang**

17  
Perspective

*Senior Fellow and Director, Institute for Global Governance Studies, Shanghai Institutes for International Studies; Culture Panel Guest*

- The theory of Confucianism is embedded in Chinese tradition culture. Naturally, I sought to find the commonality between Confucianism and global governance.
- Power politics is prevailing these days and China as one of the powerful nations should seek to promote international collaborations in facing global challenges.
- Global governance is the process of fighting power politics. We may face dilemma since we cannot find the stability under power competition. Therefore, we should promote global governance based on the lessons provided by Confucianism.

**Zhang Wenlang**

18  
Perspective

*Economist of Hong Kong Monetary Authority; World Economics Panel Guest*

**How does labor market development affect labor costs in China?**

The change of China's labor market didn't make stress to wages. It may indicate the overall still does not have labor shortages. But there are structural problems of labor supply and demand. And a wage pressures to companies in some regions. The solution to these problems: (1) Eliminating urban and rural labor market segmentation (2) Developing the technical education (3) Speed up the adjustment of industrial structure.



**Zuo Xuejin**

19  
Perspective

*Director, Institute of Economics, Shanghai Academy of Social Sciences; Urban Economics Panel Guest*

**Convergence of Comparative Advantage of the Countries in East Asia and the Prospect for Industry Cooperation**

- In the past 30 years, the 'flying-geese' pattern could explain the economic cooperation in East Asia. China participates in globalization by taking full advantage of labor bonus in combination with incentives. The comparative advantage of the countries in East Asia will merge in the future because there is a long-term convergence in the scale of population, the age and labor structure in these countries.
- There are two possible situations about the prospect for trade in East Asia:
  - 1) A new trade mode takes place of the 'flying-geese' pattern, which will promote a new model of cooperation and make full use industrial scale.
  - 2) Regional trade protectionism revives, which may reduce cooperation and increase competition and hostility.
  - 3) Tactics: East Asian countries should dedicate to market integration and create a positive environment to promote regional cooperation. The East Asian region should strengthen technical cooperation as well as reduce and eliminate system barriers to mergers and acquisitions. It should also enhance international cooperation in the field of research and development such as strengthening intellectual property protection and facilitating the transnational flow of the talent.

## Shanghai Forum (2013) Consensus

Our age is undergoing extensive and profound changes. Asia should gain experience from history and reality and make full use of its unique wisdom and cultural strengths, to overcome all obstacles and difficulties lying ahead and to pursue coexistence and harmonious development, despite our differences. Shanghai Forum (2013), adopting as its theme "Asia's Wisdom: Seeking Harmonious Development in Diversity", has gathered guests in extensive discussions on political, economic and cultural issues. The core of Asia's Wisdom is inclusiveness in promoting unity and harmony in creating prosperity. Asian countries must respect each-other in gathering together our collective wisdom and converting it into the concepts, strategies, systems, policies and actions needed to promote economic and social development, so as to achieve sustainable economic and social development.



### 1. Asia needs to be more forward-looking in leading technological innovations.

A key factor in facing up to Asia's challenges lies in technological innovation. Asian countries should promote further insights into the world technological frontier, explore and lead in new technology and applications for new energy and information, tailoring the construction of their modern energy information systems to regional resource endowments, and internalizing advanced concepts,

technologies and institutions in their domestic or regional development, so as to nurture emerging industries and create new markets and new growth points, thus promoting sustainable economic and social development.



### 2. Asia needs to be more scientific and rational in promoting economic recovery and development.

First, Asian countries should continue to cooperate with the U.S., Europe and other developed countries, boost trade under the framework of WTO international trade and investment rules of increased trade, and deepen the international divisions of labour between Asia and other regions. Meanwhile, Asian countries should also improve their domestic market rules and legal systems to improve efficiency and enhance the competitiveness of their exports.

Second, faced with challenges and opportunities in the real

economy, Asian countries should enhance their own broad-ranging cooperation, especially in the financial sector, so as to improve financial performance serving the real economy, to alleviate risks of instability in the East Asian financial system, and strengthen resilience to external market shocks. Third, Asian countries should enhance their levels of economic integration, taking industrial reconstruction fostered by Asian Free Trade Areas and regional financial and monetary cooperation as their primary starting point.

**3. Asia needs to be more proactive and prudent in exploring institutional changes.**

First, during the ongoing process of rapid urbanization, Asian countries need to deal with more complex challenges brought by

changes in urban management and social life through urban management innovation and innovation in social institutions, aiming at our living a high-quality urban life.

Second, the fourth communication revolution, featuring new media, has brought new and serious challenges to Asian countries. Only by going forward with an open mind in coping with information technology advances and social changes can Asian countries gradually improve regulations in news media and management systems suitable for our modern information society.

Third, through collaborative research and sharing of practical experience, Asian countries need to develop their health care systems with national characteristics, seeking fair and efficient solutions to cope

with the challenges brought to our health systems by an aging population and chronic diseases, which are challenges even to the entire picture of socio-economic development.

**4. Asia needs to be more patient in promoting regional cooperation.**

As regards global climate issues, Asian countries should actively seek regional cooperation, strengthen exchanges and enhance mutual trust, to cope jointly with climate changes in Asia and in the whole world, and to enhance the voice of Asian countries.

As to legal cooperation issues, it is the diversity of legal systems in Asia that determines the diversity of Asian legal wisdom, which provides both the bases and the conditions for legal unification in the region. Asian countries, on one hand, should establish





a multi-level and multi-dimensional system for resolving disputes. On the other hand, they should also try to promote partial unification of their civil laws, exploring new paths to a harmonious blend of Asian legal wisdom.

### 5. Asia needs to be more flexible in promoting regional peace and stability.

*Seeking development and promoting cooperation is the mainstream current in today's Asia.* To resolve currently existing disputes, Asian countries should operate from the standpoint of Asia and learn from the whole world, seek peace and autonomy in a gradual process, cooperate to reach win-win solutions and integration of values, learn from history and face the future.

Asian countries should respect and follow the common aspirations and well-being of the peoples of Asia, seek a common regional peace, a shared level of development and prosperity and a commitment to the resolution of manifold international and regional problems.

It was generally acknowledged by the Shanghai Forum (2013) delegates that Asia is playing an increasingly important role in the world in facing up to crises sweeping in from the West. Asia's future will be as diverse and colorful as history and reality always have been. History proves that if we want to turn Asian dynamics to the real rise of Asia, Asian countries must be united in seeking consensus from diversity and achieving development in harmony. Asian countries should fully respect the differences between each-other, coordinate their positions and carry out pragmatic cooperation, thus achieving win-win situations in the economic, political, social, cultural and environmental aspects. Asia's wisdom is the wealth of all the people in Asia. It is the ideological cornerstone of Asian countries to achieve harmonious development in diversity.

**Shanghai Forum (2013) Consensus, a product of joint efforts by scholars from Fudan University, was announced and issued by Prof. Lin Shangli, Vice President of Fudan University, at the Closing Ceremony of the Forum as one of the most important achievements of the meeting.**

## Shanghai Forum (2014) Theme

**Economic Globalization and the Choice of China**

**— Asia Transforms: Identifying New Dynamics**

**Time:** May 24-26, 2014

**Venue:** Shanghai

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

Shanghai Forum (2014) cordially looks forward to your support and participation.

More updated information about the Forum can be found on our

website [www.shanghaiforum.org](http://www.shanghaiforum.org) or

our micro-blog <http://weibo.com/shanghaiforum>.



**Concentrating on Asia**

**Focusing on Hot Issues**

**Congregating Elites**

**Promoting Interactions**

**Enhancing Cooperation**

**Seeking Consensus**



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