The Value and Strength of Ideas

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Boao Review

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Innovation Is Shaping Our Future

The further we venture into this new era of change and transition, the more we need exchanges of ideas to light the way ahead.

The publication of our April issue coincides with the opening ceremony of the Boao Forum for Asia Annual Conference 2015. The Forum is attracting increasing attention not only within the Asia-Pacific region, but also from anyone involved with the region, not only because it brings together leading elites in their respective fields, but also because people are interested in the thoughts of, and interchanges between, the wise minds which have brought about the region's fast-paced development.

"Asia's New Future: Towards a Community of Common Destiny" – as in the past, this year's meeting will cast new light on expectations for Asia's actual development and strategic direction. Over the past half-century, different parts of Asia have excelled in various sectors of the global economy, not only benefiting from the massive arenas opened up by global economic liberalization, but also from the policy dividends and unleashed vitality brought about by ongoing change.

Innovation and reform have encouraged humanity to move from an agricultural society into the industrial era, developing into the new world that we know today. Nowadays, Asia's various member states and regions, regardless of their social governance or mode of economic development, all face challenges in terms of their capacity to generate innovation.

This issue's cover story, "Europe, America and China Have the Same Economic Problem", penned by the 2006 Nobel Prize winner for economics Edmund Phelps, traces the past, analyzes the present, and looks to the future of the world's three major economies. Phelps believes that regardless of their state of development, their economic growth and success originate from technological and industrial innovation. Developed nations can only rely on their own innovation capacity, whereas in developing countries, innovation can be achieved by introducing and copying existing technologies.

Professor Phelps points out that as Europe, the U.S. and China enter their own new economic normal, the issues they face are actually the same: how to stimulate widespread innovation and vitality, how to expand innovation from the inner circles of high-technology industries to every industry sector, and even to every individual at the grassroots level of society.

German investor Peter Jungen's views are similar to those of Professor Phelps, and he proposes strengthening the development of education which stimulates innovation, eliminating the inhibiting effect of traditional culture on innovation, and disposing of regulatory measures which stifle innovation.

In our Macro Economy column, we are honored to bring to you an article by Dutch Prime Minister Mark Rutte. The Prime Minister, who will head a delegation on a visit to China and attend the Forum, has taken the opportunity in his message of blessings for the New Year of his Chinese zodiac sign, the Sheep, to talk about the close cooperation between China and the Netherlands in areas as disparate as trade, investment, culture and society.

Former Director General of the WTO Pascal Lamy writes about the past, present and future of global governance. He perceptively points out that acknowledging and understanding our global differences is a prerequisite to attempts to find an acceptable point of convergence, and is probably the most valuable contribution our global system could make to improve global economic, political, and social integration, ensuring the best possible future for the generations to come.

Ravi Menon, Director of the Monetary Authority of Singapore, also writes about Singapore's role in the integration of Asia's economies, the offshore RMB market and infrastructure financing. He also discusses with readers how to best write the story of Asia's growth.

We hope that these insights—from scholars, regulators and leaders alike—will stand the test of time, and light the way ahead for the transformation of Asia, as well as the world.


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Boao Salon– 2015 Inaugural Event

Focusing on the diplomatic challenges with China's neighbors

On 9 January 2015, the inaugural event of the 2015 series of Boao Salons, organized by Boao Review was held in Beijing. The theme was "Diplomatic challenges with China's neighbors", and former Deputy Director for Asian Affairs of the Ministry of Foreign Affairs Madame Yang Jian was invited to give the keynote speech.

Recalling her early participation in the Boao Forum for Asia, as the Forum's Asian regional coordinator, Yang Jian started off by expressing her sincere happiness at the achievements and position the Forum has today achieved.

Turning to the topic of her speech, she explained that foreign affairs are an extension of domestic affairs. She mentioned that diplomats must have well-honed communications and judgement skills, a positive attitude in the face of challenges, and the ability to implement the national will and protect national interests. In this era of globalization, national interests are intertwined, and dialogue and negotiation are the only desirable ways to resolve disagreements. China's foreign relations, those with its neighbours in particular, must seize opportunities, face up to challenges, and seek a peaceful, stable environment to allow its domestic reforms to mature.

On the subject of the Asia-Pacific situation in the face of the USA's "pivot to Asia" and "new balance of power in the Asia Pacific" strategies, she talked about the strategic decisions which China, as the world's largest developing nation, has taken in the face of this situation.

With regard to Sino-Japanese relations, she explained that although the positive development of Sino-Japanese relations is burdened by historical baggage as well as a variety of more recent issues, these should be resolved with diplomacy and wisdom. Regarding the Korean Peninsula, it is even more important that the parties involved remain calm and restrained, and invoke dialogue and negotiations to achieve the nuclear disarmament of the peninsula, and ensure its peace and stability.

Yang Jian also answered questions from participating guests on subjects ranging from territorial disputes with China, international investment, Sino-Myanmar and Sino-Vietnamese relations, and the work and lives of diplomatic personnel. BFA Secretariat Executive Director and BFA Institute Executive Dean Yao Wang, and BFA Institute Vice President Wang Dong and Gao Song, publisher of the Boao Review, also participated in the Salon.

Before the start of the Salon, Boao Review Media Executive General Manager Song

Gongwu showcased *The Boao Review*, the official media platform for the Boao Forum for Asia, which has published 11 bilingual Chinese and English issues in a little more than two years, and has also built up a full-media platform. The Boao Review has also established a think-tank network of leading figures in domestic and foreign government, business, and academia, and is continuing to build on its intellectual resources.

In closing, Song Gongwu introduced the concept behind the Boao Salon – established in September 2014 to further promote the value and power of ideas – in order to enable more participants to engage in the development of speaking opportunities at the Forum, and he expressed the hope that the Boao Salon would further elevate the level of debate, and truly become a leading platform for the interchange of thoughts and ideas.

BFA Hosts New Year Reception

On January 20, 2015, the Boao Forum for Asia (BFA) hosted a New Year reception at the China World Summit Wing in Beijing as a token of gratitude to those who have long been supportive of BFA's development.

BFA Secretary General Zhou Wenzhong reviewed in his speech what had been accomplished by the BFA in the past year and thanked all stakeholders for their support for the BFA. He said that the BFA will continue to promote regional cooperation in the Asia-Pacific region, encourage the translation of economic complementarity into growth drivers, expand the convergence of interest and build an Asia-wide community for mutually beneficial and win-win development. Moreover, he added that the BFA will continue to serve as a platform to build consensus across Asia and make the voice of Asia heard around the world. The reception was moderated by Wu Jun, Executive Director of the BFA Secretariat.

The reception was graced by the presence of more than 200 Chinese government officials, business leaders, academia and media representatives, foreign diplomats and the BFA's long-term partners, including: Zhang Guobao, Chairman of the Advisory Board at the National Energy Administration; Huang Shuhe, former Vice-Chairman of the State-owned Assets Supervision and Administration Commission; and Wei Jianguo, Vice Chairman of the China Center for International Economic Exchanges.

BFA Members Club Activity on the Silk Road Economic Belt

Boao Forum for Asia (BFA) held its first Members Club event in 2015 at China World Summit Wing on January 20, 2015, themed "Heritage for Development, Cooperation for Prosperity — Opportunities and Challenges from the Silk Road Economic Belt". The event featured a keynote speech and a panel discussion on the topic of the Silk Road Economic Belt, an idea proposed by Chinese president Xi Jinping in his tour to Kazakhstan in 2013 and immediately attracted widespread attention worldwide.

As a route of common development connecting China with Europe, Central Asia and West Asia, the economic belt is expected to exert influence that goes beyond the region and enables Asia and the rest the world to achieve common development. In his keynote speech, Ou Xiaoli, Deputy Director-General of the Department of Western Region Development of the National Development and Reform Commission, elaborated the concept of the Silk Road Economic Belt, including its content, strategic direction, potentials and areas where the Chinese government will focus its efforts.

The keynote was followed by a discussion on the same topic by Ou Xiaoli, Zhao Jinping, Director-General of the Department of Foreign Economic Relations with the Development Research Center of the State Council; Yang Xiyu, Executive Vice President of the BFA Research and Training Institute; and He Gang, Managing Editor of the *Caijing* magazine. The panel analyzed the opportunities and challenges brought by the economic belt from different perspectives and put forward suggestions for BFA members to seize the business opportunities arising from the economic belt.

The event was hosted by Wu Jun, Executive Director of the BFA Secretariat with more than 150 BFA members and partners from China and abroad attending.

Program Finalized and Preparations Underway for BFA Annual Conference 2015

On January 20, 2015, Mr. Zhou Wenzhong, Secretary General of the Boao Forum for Asia (BFA), briefed journalists on preparations for the upcoming BFA Annual Conference 2015 at a press meeting held by the BFA at the China World Summit Wing in Beijing.

Zhou said that BFA Board of Directors has decided to hold the Annual Conference from March 26 to 29 in Boao, Hainan Province, China. The opening plenary will be held on the morning of March 28, when Chinese President Xi Jinping and a number of other state leaders will grace this opening ceremony with their presence.

After several rounds of discussions among the Board of Directors, members and partners, "Asia’s New Future: Towards a Community of Common Destiny” has been selected as the theme of this year’s Annual Conference. Through participant's brainstorming, the Annual Conference aims to encourage countries from Asia and the rest of the world to transcend their conflicts and disputes, and instead as a community, work to seek common ground by together dealing with the good and bad to build an open, inclusive, and win-win partnership for common development.

Centered on this theme, the 2015 Annual Conference has developed 73 informative and diverse sessions, with topics ranging from macro economy, regional cooperation, and industry transformation to technology innovation, political security and social welfare. New modules of agriculture, justice and religion have also been added for the first time into the program.

To date, the BFA has confirmed around 200 speakers for the Annual Conference. At the opening plenary on March 28, Chinese President Xi Jinping and more than 10 state leaders will deliver keynote speeches around the theme, “Asia’s New Future: Towards a Community of Common Destiny”. Some state leaders will also attend certain sessions and close-door meetings. In addition, over 20 minister-level speakers have been confirmed to attend the Annual Conference, together with more than 10 officials from international and regional organizations, 80 business leaders and 30 experts and scholars, as well as more than 20 media representatives and 10 cultural leaders. The program and participant’s list have been released on the BFA’s website and will be updated from time to time.

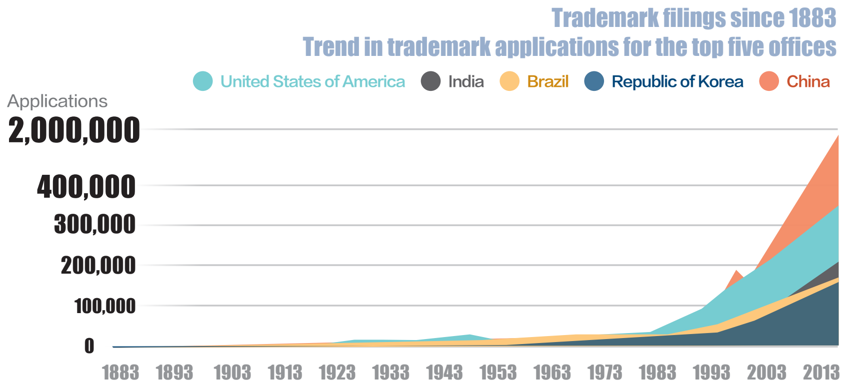
Zhou also said that as a non-government and non-profit international organization, the BFA has been largely dependent on corporate partnership for its operations and development. Despite the global and domestic economic slowdown, the BFA has still managed to find enough partners for the conference. Confirmed partners include strategic partners SABIC and Shanghai General Motors Co., Ltd.; diamond partners Fortescue Metals Group, Kweichou Moutai Co., Ltd. and Samsung; platinum partners QQ.com, China Fortune Land Development Co., Ltd. and HNA Group; gold partners Deloitte China, China Environmental Energy Holdings Co., Ltd., China Power

Think Tank

International Development Limited, Mengniu Dairy Co., Ltd. and Hainan Boao Lecheng Development Holdings Co., Ltd.; intellectual supporting partners Deloitte China and Caijing; philanthropy partner Bill & Melinda Gates Foundation; supporting partners Qualcomm Inc., Ping An Real Estate, Shenzhen China Create Wealth Connection Internet Finance Co., Ltd, Ganten Baisuishan Mineral Water, Jala Group Co., Starbucks (China) Co., Ltd., Tsian Yu and New Alliance Consulting International.

Confirmed media partners include: Air Media, Bloomberg, CBN, CCTV, China Daily, China Pictorial, CNBC, CRI, Economic Daily, Guiyang Daily Media Group, Global Times, Hainan Broadcasting Group, Haymarket Financial Media, JoongAng Ilbo, Outlook Weekly, PKU Business Review, PR Newswire, Phoenix TV, VIVA Mobile Media, Xinhua News Agency, Wall Street Journal Asia, and Youku.

Zhou also said that the BFA will release the 2015 annual reports of its three flagship publications—Progress of Asian Economic Integration Annual Report 2015, Development of Emerging Economies Annual Report 2015 and Progress of Asian Competitiveness Annual Report 2015—in the run-up to the Annual Conference. As in the past two years, the official magazine Boao Review, will present Report on Rural Finance Development 2015 and Report on Internet Finance 2015.



Trademark filings were fairly low and stable until the mid-1980s. Chinese filings took off in the 1990s. Filings in the U.S. have doubled since the mid-1990s despite the decline at the end of the dot-com era in 2001 and 2002 and the financial crisis in 2008 and 2009.
Source: WIPO's World Intellectual Property Indicators

China, Trademark King

Source: WIPO's World Intellectual Property Indicators

Trademark filing activity grew by 6 percent worldwide in 2013—similar to the growth rate witnessed in 2012. China saw the fastest growth, at 14 percent, followed closely by the U.S., which saw 13 percent growth. Filing activity at the European Union's Office for Harmonization in the Internal Market (OHIM) increased by a comparatively modest 3.6 percent. Overall, China's trademark office holds 1.88 million class counts, followed by the United States Patent and Trademark Office (USPTO) which holds around 486,000.

An estimated 4.87 million trademark applications were filed worldwide in 2013, 7.6% more than in 2012, among which the registrations were up to 3 million. Since 1995, applications have more than doubled.

China's registration class count in 2013 was about 865,000. China accounted for the most trademarks in force in 2013, with 7.2 million or a 13.1% increase from 2012.

BFA-WUN Workshop Convened in Sydney

Provided by John Hearn, WUN Chief Executive

On 2 December 2014, a workshop was convened in Sydney to pursue effective partnerships in higher education and research and to strengthen education and economic diplomacy.

The workshop was jointly convened by the Boao Forum for Asia and the Worldwide Universities Network (www.wun.ac.uk), and sponsored by the Top Education Institute. The target was to explore the translation of policy into practical instruments for partnership, planning and implementation.

His Excellency Secretary General Zhou Wenzhong of the Boao Forum for Asia, and previously Ambassador of China to Australia and to the USA, met with Australian university presidents and education experts, and explored practical ways to build on the substantial current engagement, dating back to the Australia-China diplomatic agreements of the 1970s.

China, Europe and the Netherlands: Opportunity Is Knocking at Our Doors

By Mark Rutte

China has recently ushered in a new year: the Year of the Sheep. Coincidentally, I was born under the sign of the sheep myself. And in my contacts with the Chinese community in the Netherlands, I have learned that according to an ancient Chinese proverb the Year of the Sheep will bring favorable winds. This is a good prospect considering my upcoming visit to China and the Boao Forum for Asia annual conference. We have every reason for optimism as we look to the future together.

Impressive cooperation

Although China and Europe share a long history, just a few decades ago economic relations were still very limited. But after we established diplomatic ties in 1975, this rapidly changed. Today, the EU is China's foremost trade partner. In 2013, the bilateral goods trade amounted to almost €430 billion. And trade in services is expanding rapidly – already topping €50 billion annually. These figures show how close we have become in a relatively short time. The current negotiations on a wide-ranging investment agreement between China and the EU are the next step forward.

China's rapid emergence since the 1970s is an unprecedented success story. In the blink of an eye, China has become a key player on the world stage and in the process lifted hundreds of millions of people out of poverty. Although the days of double-digit growth figures seem to be over, an average GDP increase of 7.5 percent is still highly enviable from a European point of view.

The great challenge facing China now is to render

> The Netherlands has always had a special place for China as a gateway to Europe. With closer ties, and in terms of personnel, trade and business facilitation, China and the Netherlands can face the same challenges together, and offer opportunities to businesses in diverse fields.

that growth sustainable in terms of natural resources, capital and manpower. As partners, China and the EU can help each other and learn a great deal from each other in this respect. Our specific situations may be very different, but in today's globalized world the future is a shared responsibility, encompassing more than just economic ties. The 2020 Strategic Agenda for Cooperation, set out in 2013, focuses on underlying themes that are important to both China and the EU: from peace and security and better market access to sustainable development and exchanging knowledge, manpower and culture.

The Netherlands' role in the EU-China cooperation

The Netherlands has always had a special place in relations between China and Europe. As early as the 17th century, Dutch merchantmen plied the trade routes to the Far East via present-day Hainan Province – the venue for the Boao Forum conference. That special relationship between our countries was reaffirmed when President Xi Jinping came to the Netherlands on a state visit in 2014.

It was his first state visit to an EU member, and President Xi pointed out how the Netherlands is China's gateway to Europe. Indeed, that is literally the case, given the importance of Amsterdam Airport Schiphol and Europe's largest seaport Rotterdam to Chinese exports. In socio-cultural terms, the relationship between our countries is exceptional too – not least thanks to the active Chinese community in the Netherlands. When he visited our country, President Xi witnessed an agreement to set up a new Chinese cultural centre in the Netherlands.

The Netherlands wants to be that gateway to Europe in the future, so we are investing heavily in our bilateral relationship with China. The trade figures speak for themselves. Since the mid-1990s, the goods trade between China and the Netherlands has increased from about €2.5 billion to €40 billion. No fewer than 450 Chinese companies have opened branches in the Netherlands, including the European headquarters of world-renowned brands such as Huawei Enterprise, Midea and China Cargo Airlines. A wide variety of Chinese investors are finding their way to the Netherlands. Sports promoters United Vansen, for example, have bought the professional football club in my hometown of The Hague – a striking example which hit the headlines in my country.

Opportunities for further cooperation

We are seeing a similar trend in the contacts between our peoples. The number of Chinese students in our country is increasing steadily and currently stands at around 6,700. The number of tourists from China is growing faster here than anywhere else. Last year, 255,000 Chinese tourists visited the Netherlands, and in 10 years' time we expect the number to top 800,000. Interestingly, increasing numbers are now also visiting the tourist destinations outside Amsterdam, and we are very pleased to welcome them. In the village of Giethoorn – our Venice of the North – tourist information is even being provided in Chinese.

Another important fact worth mentioning is that China and the Netherlands are both involved in combating piracy in international waters and are also engaging in military cooperation as part of the UN's MINUSMA mission, helping to bring stability to Mali. In doing so we are protecting a common interest, because safe trade routes and a stable international environment are essential for the further development of world trade. These examples also testify to the responsibility China – as a large country and major global player – is shouldering when it comes to resolving global issues. The Netherlands welcomes this and will endeavor to remain an active and reliable partner in this context too.

So there is a great deal that unites us and I hope that my visit to China will enhance our cooperation further – I am convinced that opportunity is knocking at our doors. If I look to the future I see us both facing the same challenges. How do we deal with an ageing population? What do we need to do to cope with the effects of climate change? How do we provide enough safe food for the expanding world population? And where will our energy come from in 2050? The answers to these and other major sustainability questions will have to come from economic sectors like water, life sciences, agri-food and energy; all of which are highly developed in the Netherlands. Working together and sharing knowledge with our Chinese partners will help us both rise to these challenges and at the same time take our economies to new heights.

Dutch companies are eager to do business in China and our country welcomes Chinese businesses with open arms. We have an attractive fiscal, innovation and investment climate in an economy that ranks among the most stable and competitive in the world. To choose the Netherlands as your base is to opt for a highly educated and productive workforce, excellent transport links, and a country with an international orientation and business instincts well matched to those of the Chinese.

Chinese entrepreneurs thinking of setting up business in the Netherlands can rely on fast-track visa procedures for knowledge migrants and the necessary support from the Dutch diplomatic network in China. Having recently opened our new consulate-general in Chongqing, we now have four Dutch consulates in China, as well as the embassy in Beijing and six Netherlands Business Support Offices. For its part, China recently opened a new consulate-general in Willemstad, Curaçao, one of the countries that make up the Kingdom of the Netherlands. Yet more evidence of the mutual wish to invest in our strong cooperation.

The Dutch business representatives who will be accompanying me to China join me in looking forward to strengthening our existing ties and exploring new opportunities to work together. I sincerely hope that, true to tradition, this Year of the Sheep will indeed bring favorable winds that will carry both our economies forward and enhance our relations in every aspect.

Mark Rutte
Prime Minister of the Netherlands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The Past, Present and Future of Global Governance

By **Pascal Lamy**

Although human history has witnessed various periods in which technological advances transformed societies, we have never seen the giant, forceful and rapid changes like those wrought by globalization over the past several decades. Such forceful globalization has presented immense opportunities and huge economic and social benefits, but also concomitant inequalities, instability, contagion, and stresses to humanity and the earth.

This combination represents a challenge to global governance: how can we harness globalization in order to maximize its benefits and minimize its costs? While many of the answers to globalization's questions reside within domestic political systems, our current global governance system is insufficient to address borderless challenges like reducing carbon emissions, reversing ocean depletion, combating protectionism, currency volatility, tax evasion or cyber criminality. These and other problems can only be addressed with some form of global governance.

Arduous evolution of current international organization system

Advances in global governance have nevertheless been hindered by specific difficulties, which are often underestimated. Whether national, corporate, or otherwise, we know what we should expect from traditional governance: legitimacy, coherence and efficiency. We also know that these elements must be carefully interwoven if they are to produce results. However, the architecture of our international system, based on the Westphalian concept of the primacy of sovereign nation states, is hardly capable of producing such outcomes.

Such a system presents clear obstacles to progress in producing leadership, legitimacy, coherence and efficiency at the global level. How can a leader be appointed when all sovereign states are equal? How legitimate can a global decision be when its accountability exponentially decreases the further it is taken from the world's 7.2 billion citizens? How coherent

While many of the answers to globalization's questions reside within domestic political systems, our current global governance system is insufficient to address borderless challenges. Globally, we should focus on maximizing the utility of our present system and find an acceptable point of value convergence, to improve global economic, political and social integration.

can international governance be when it is based on clustered organizations with the very specific roles and mandates permitted by their sponsoring sovereign nations? Finally, how efficient can the decisions of these organizations be when they are necessarily adopted by consensus, and thus few and far between?

These questions explain why the emergence of the current international organization system—which began 150 years ago with the International Telegraph Union, and of which the latest substantial episode was International Criminal Court's creation in 1998—has been such an arduous and painful process. But it has emerged, underpinned by the treaties through which state entities have gradually agreed to renounce portions of their sovereignty. Comprising both formal institutions like the UN system and Bretton Woods Institutions, and informal structures like the G5/G7/G8 and now G20, this system is somewhat like a map of an island chain connected by dotted lines—far from covering all the necessary fields of global governance.

We should note that it took several major world disasters in the 20th century to gather the extraordinary political energy necessary to take these few small steps away from state sovereignty and the "security blanket" of the Westphalian system. We should also acknowledge that the ideological infrastructure of our global governance, while not exclusively derived from the Washington Consensus, has been produced in the West and reflects the development of globalized market capitalism and a political system of liberal democracies.

Stalling of global governance system

Over the past 20 years, the gradual pace of the construction of this global governance system has stalled to a near standstill due to a sequence of geotechnical, geoeconomic and geopolitical developments that have intensified the obstacles of the previous era.

The last development is, in reality, more of a revolution: the emergence of developing economies in the

wake of globalization has fundamentally reoriented the global balance of power between North and South, East and West. These emerging powers have leveraged market capitalism and information technologies to realize economic and social development at astonishing speeds and levels—although the total reduction of global poverty has not prevented rising levels of inequality. While these new stakeholders have adapted to globalized markets, they are less inclined to accept a globalized political sphere and the erosion of sovereignty implied by the old or, for that matter, any international order. Because they did not write the rules of the game, there is a sense that the balance of obligations between 'North' and 'South' no longer applies, thereby undermining rules governing international trade and the environment.

The second development involves the consequences of the economic crisis that began in 2007 and 2008. First, by exaggerating the gulf in growth rates between advanced and emerging actors, it accelerated the "Great Changeover". Second, the crisis served to undermine the legitimacy of the old "western" model. Finally, the crisis drained nations of the sort of political energy necessary for global governance.

While conventional thought suggests the contrary, advances in international policy require immense political energy. International negotiations are, above all, negotiations at the domestic and national levels and necessitate strong domestic political leadership. The economic and social hardships imposed by times of crisis often cause public opinions to harden, weakening governments therefore leading them to neglect the international scene until domestic situations improve. They can also translate into populist reactions – of which the common discourse is to "blame the foreigner."

Thus international governance has itself entered a sort of crisis phase, seemingly incapable of adapting to the new global balance or creating new common ground on which to cooperate. Indeed, we have witnessed no major advances in global governance since the inception of the ICC or the conclusion of the Uruguay Round, nor any reform of the antiquated UN Security Council.

We find ourselves in a context of global governance gridlock, to use David Held's words; our failure to find solutions to this gridlock could well portend numerous economic, social and cultural hazards for future generations.

Maximizing utility of existing system

But despite these difficult circumstances, I believe that there are some avenues that could allow us to bridge the gap. In order to do so, it is important that we abandon the idea of a "big bang" in global governance—the likes of which would only result from a major global conflict, which I fortunately think we can avoid. Instead, we should focus on maximizing the utility of our present system.

This avenue entails the improvement and increased reliance on the existing international framework, namely the triangle formed by the G20, the United Nations system and specialized international organizations. Despite its lack of legitimacy, the G20 has the potential to produce a sort of cross-cutting coherence and impetus for advancing global governance. Although lacking in efficiency, the UN can lend its legitimacy. With the support of these first two sides, specialized agencies can complete the triangle by providing solutions based on their specific areas of expertise. We have seen some success in the better implementation of this triangle: in the domain of global financial regulation, when the G20 forged the Financial Stability Board in 2009, and in the general resistance to protectionist pressures throughout the crisis.

For this approach to work, more efforts must be made to introduce the tools and benchmarks necessary to monitor organizational and institutional activities and to measure their successes, thereby improving their overall accountability. In this sense, the Millennium Development Goals were an important innovation in global governance and the new post-2015 generation of sustainable development goals should hopefully build on these successes.

Because relying on the existing global framework is the best option at present, we should also consider the potential of incremental advances. This includes, as suggested by Oxford Martin's report, a gradual shift away from consensus-based decisions towards some model of majority voting within organizations, a greater right of initiative for the leaders of international organizations, and the insertion of sunset clauses in their mandates in order to ensure their relevance. At the same time, we must be prepared to accept small starting steps in areas where our global infrastructure is sorely lacking, like cyber-security, migration, taxation and energy.

There are also opportunities for advances in governance that are outside of the current framework. For example, continued regional integration has led to different models of "mini-global governance" in Europe and these, in their own way, are moving in the same direction, in Asia, Africa and Central America. The creation of innovative partnerships through the inclusion of new actors—be they non-governmental organizations, international companies or megacities—could allow for a more effective leveraging of resources than through the UN system alone.

To conclude, I would like to mention one remaining challenge we must overcome if we are to succeed in adapting global governance to the needs of the 21st century: values. The speed with which globalization has reoriented economic activity and rebalanced global power has also served to highlight our disparate "collective preferences", or value systems. We see this as trade obstacles transform from policies designed to protect producers to more subjective, precautionary measures conceived of to protect consumers from risk. All governance systems need a foundation of aggregated collective preferences; this is also true at the global scale.

Therefore, it is my view that acknowledging and understanding our ethical differences is a prerequisite to attempts to find an acceptable point of convergence. This attempt at acknowledging and understanding is probably the most valuable contribution our global system could make to improve global economic, political, and social integration in order to ensure the best possible future for the generations to come.

Footnotes provided by the author are available on request.

Pascal Lamy
Former Director-General of the WTO

Financing and Planning the Construction of the Silk Road Economic Belt

By **Hu Huaibang**

In September 2013, Chinese President Xi Jinping caught the world's attention by laying out his vision for the strategic construction of a 'Silk Road Economic Belt'. Over the past year, this idea has moved from a simple initiative to its implementation phase, as China's plans for the development of the basic have been set up and the construction of the related infrastructure is accelerating. In short, the construction of the Silk Road Economic Belt will provide a potent impetus for the social and economic development of the SCO member nations.

Characteristics of the Silk Road Economic Belt

As a strategic concept that reflects the trends of current times, construction of the Silk Road Economic Belt has several defining characteristics. The first is win-win co-operation. It is based on the principles of co-commerce, co-building and sharing, and is dedicated to establishing a community with shared interests, responsibilities and destiny. The second characteristic is its openness and inclusivity. China's plans will be coordinated with the strategic development of involved nations and integrated with the various industries in order to balance the concerns, interests and benefits of all. The third characteristic is that it is a positive and pragmatic strategy, prioritizing the promotion of infrastructural interconnectivity and co-operation in the areas of trade, industry, energy, finance, culture and the environment in order to gradually build up a pattern of large-scale regional co-operation. The fourth characteristic is its flexibility and efficiency. Multiple co-operation models will be explored by taking into account conditions in different nations, with no single-minded pursuit of institutional-type structures, with the focus being to maximize relevance and feasibility. The idea of the joint construction of a Silk Road Economic Belt fits the development needs of the countries involved, is in line with the trend of increasing co-operation between Asia and Europe, and is receiving an ever more positive response from the countries which will be influenced by its development.

The construction of the Silk Road Economic Belt provides a historic opportunity for development in the SCO region. SCO member states situated along the route of the old Silk Road have an undeniable geographical advantage when it comes to building bridges between the twin economic powerhouses of Europe and Asia. Accelerating the construction of the Silk Road Economic Belt will greatly promote co-operation between SCO member states in terms of interconnectivity, transport compatibility and trade and investment integration. This will in turn deliver tangible results to the populations of these nations and lay a solid foundation for prosperity and stability throughout the region.

Increased co-operation within the SCO Interbank Consortium

The construction of the Silk Road Economic Belt provides a broad stage for deeper co-operation within the SCO Interbank Consortium. Since its inception, the Consortium has played an important role in promoting regional economic and financial integration and supporting the financing of major projects. Each member

Hu Huaibang
Chairman, China Development Bank

> The grand idea of a Silk Road Economic Belt has already progressed from a simple initiative to its implementation phase, and as the largest investment and financing mechanism within the framework of the Shanghai Cooperation Organization, the SCO Interbank Consortium needs to play a positive and active role in this development.

bank has provided tens of billions of dollars in accumulated loans in fields of infrastructure, industry, energy and livelihoods of people within the region. Promoting the construction of the Silk Road Economic Belt still requires the investment of huge amounts of money. Take railways as an example. The Silk Road Economic Belt requires up to 10,000 km of track with an estimated total investment of 300–500 billion RMB. To realize such vast capital investment amounts, increased co-operation between Consortium member banks and ever mounting investment and financing support from each will be required.

As a member of the SCO Interbank Consortium, China Development Bank (CDB) has made major efforts to service the SCO region and the construction of the Silk Road Economic Belt. In 2014 the Bank's total assets exceeded 10 trillion RMB, with a foreign currency loan balance of nearly USD 320 billion, including USD 44 billion in loans within the SCO region. The CDB is the Chinese financial organization with the greatest number of co-operation projects – and the largest loans – within the entire SCO region. Not long ago, the Chinese government provided approval in principle for further reform to the CDB—thus clarifying the Bank's position as a development finance organization, stressing the importance of expanding the function and role of development finance, in key fields, in weak links and during this critical period. The Chinese government's affirmation of development finance and significant support for the long-term development of the CDB has further strengthened our confidence and capacity to co-operate with fellow Consortium member banks and work together to build the Silk Road Economic Belt.

Planning and support

2015 will be the year during which development of the Silk Road Economic Belt projects become a reality. China will continue to consult with partner countries towards building consensus, and forming a government-level platform for construction that benefits all parties and establishes a connected development strategy built on the foundation of mutual benefit. The Interbank Consortium is the major finance and capital mechanism within the SCO framework, and the construction of the Silk Road Economic Belt should therefore be seen as an opportunity for us to play an active and positive role.

First, we must accommodate the interests and requirements of all parties, and promote the idea of 'planning first'. The CDB is working with the National Development and Reform Commission and other ministries in the research and preparation of plans relating to the Economic Belt. Each member bank needs to strengthen communications with the relevant national authorities and bodies and participate actively in the Silk Road Economic Belt construction planning in their country; each needs to research into and develop corresponding Consortium financing plans, and thus design financing options appropriate to the individual situations of each country.

Secondly, we must enrich the Consortium project portfolio and facilitate the implementation of planning. The majority of China's plans for the Silk Road Economic Belt over the past few years have been formed and validated with the consensus of all parties involved, comprising key sectors and projects. All of the

CDB-supported Sino-Russian oil cooperation project

CDB-supported Moinak hydropower project in Kazakhstan

member banks will concentrate on bringing the Silk Road Economic Belt to fruition, and address existing or future plans in accordance with the development needs of each country, with a focus on projects relating to the interconnectivity of infrastructure, energy resources, cross-border industrial parks, the green economy and increasing peoples' livelihoods. On this basis, a selection and priority rating should be conducted for key Silk Road Economic Belt projects which the Interbank Consortium will plan to support and thus include in the Consortium project portfolio.

Third, we must increase financial support for key projects and provide sustained momentum to them. Guided by the principle of 'planning ahead, local realization of projects, and financing support', the CDB has in recent years taken a pragmatic approach to developing co-operation with member banks and enterprises throughout the region, by providing loans, bank credit, sub-loans, guarantees and local currency loans. Last November we contributed towards the establishment of a USD 40 billion Silk Road Fund, which is intended to establish an open multilateral investment and financing platform for the construction of the Silk Road Economic Belt. Looking forward, member banks will need to focus on financial innovation, combining bilateral with multilateral co-operation, loans with investment, and large-scale projects aiming to improve personal livelihood. To do so, a rich array of financial products and co-operation methods need to be used to meet the financial needs of each project and become the main driving force behind investment and financing for the construction of the Silk Road Economic Belt.

Fourth, the exchange of personnel and sharing of experience must be improved, and communication and mutual understanding enhanced. In recent years, the Consortium has achieved significant progress in co-operation over the exchange and training of personnel. By the end of 2014, the CDB had enabled a total of 1,600 people from national government departments and co-operating organizations from SCO countries to participate in discussions and exchange activities. The Development Bank Fund has also financed 46 outstanding students from SCO countries in their pursuit of further studies in China. Next, we shall continue to improve exchanges and training co-operation within the Consortium, share experiences and respective advantages, and enhance mutual understanding and create better conditions for policy discussion, business co-operation, personnel training and exchange of information between member banks.

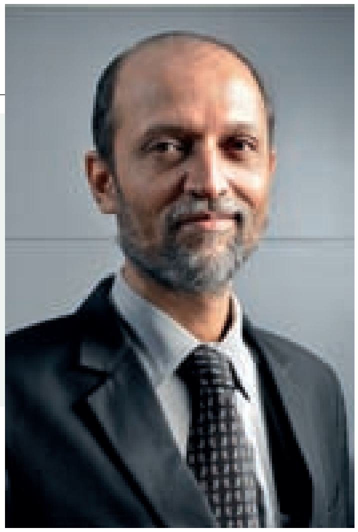
The Silk Road of old was a symbol of long-standing friendship and cultural exchange, and the Silk Road Economic Belt will sustain this ideal and carry it forward into the future. The CDB is ready to work with all parties to open up innovative and pragmatic co-operation, to actively participate in the construction of the historic Silk Road Economic Belt, and to make ever greater contributions to the long-term prosperity and development of the SCO region.

This article has been adapted from the author's speech at the 6th Symposium of the SCO Interbank Consortium on 31 January, 2015.

Economic Prospects for India in 2015

By **Ajit Ranade**

When most parts of the world are experiencing a slowdown, India and China's share in the global economy will increasingly mirror their population share. In particular for India, its growth will provide much of the growth impetus in Asia due to falling crude oil prices, government reforms and demographic dividends.



Ajit Ranade
Senior President and Chief Economist, Aditya Birla Group; Member of the Capital Convertibility Committee of India's Reserve Bank, the Governing Council of the Banking Codes and Supervisory Board of India, the Economic Policy Council of CII, and the National Executive Committee of FICCI

It has become conventional wisdom to assert that the economic centre of gravity of the world is shifting east. During the latter quarter of the twentieth century, and continuing well into the next, the share of global GDP of "Western" nations went down by more than 10 percent, when measured in US dollars. When adjusted for differences in purchasing power, and measured in PPP dollars, the contribution of Emerging Market (EM) economies is much larger. Taken together, the EM group, mostly from the east, crossed the important threshold of 50 percent in 2008. EM economies currently make up 58 percent of global GDP.

More recently, as if to reinforce the symbolism of this West to East phenomenon, the airport of Dubai edged out London's Heathrow to become the busiest airport in the world for international travelers. EM economies consistently clock higher growth rates than major developed economies, with an average lead of about 4 percentage points. Not surprisingly, 70 percent of the incremental global growth has come from EM economies in recent years. China alone contributed 35 to 40 percent of global growth during 2010-12.

Yet the view in 2015 for EMs is very different. Most parts of the world are experiencing a slowdown. The International Monetary Fund (IMF) has revised downwards the growth prospects of most major economies, except for the U.S. and India. Three of the four economies from the original BRIC acronym are facing a slowdown. Both Brazil and Russia face prospects of a recession, as does Japan. The Eurozone will likely grow at barely 1 percent during 2015, with unresolved large sovereign debt issues. China's most recent quarterly growth rate was the lowest recorded in more than two decades. Since China's size today is six times larger than two decades ago, some of this slowdown was inevitable, simply due to a base effect. The additional slowdown is a consequence of the sputtering of the export engine, as a primary driver of growth, and the challenge of rebalancing the economy from investment to consumption. In China there is talk of low-cost labor-intensive manufacturing activity migrating to newer destinations in Asia.

Unanticipated bonanza of steep fall in global crude oil prices

In such a world with a cloudy and uncertain outlook, India's current perch is almost envious. The steep fall in global crude oil prices is an unanticipated bonanza to the country as it imports almost 70 percent of its oil requirement. This fall provides a triple bonus to the economy. Firstly, it reduces the fiscal burden of subsidies on oil. This could translate as anywhere between 0.5 to 1 percent of GDP. This magnitude of savings is hugely welcome to the fiscally strapped government, which can deploy these savings into domestic infrastructure. Secondly, cheaper oil reduces the import bill by around US$70 to 90 billion, taking some pressure off the currency and the current account.

India is one of the few large EM economies that has had a persistent current account deficit (CAD), which has to be financed by capital inflows. Those inflows that fill the gap themselves represent a vote of confidence of foreign investors (or lenders) into India. But the CAD cannot be allowed to become excessive, and hence the fall in oil prices helps. It may also turn into a surplus during 2015. The third bonus aspect is that lower oil prices will lead to lower domestic inflation, since they feed into almost all aspects of the economy, from energy and transportation to food inflation. The fall in oil embellishes the recent success of India's central bank in its protracted battle to tame double-digit inflation. The Reserve Bank of India, in all probability, is now ready to ease interest rates throughout the year to support industrial growth and sectors like housing and construction.

Anticipated reforms of new government

A favorable turn in India's business cycle arrives just in time, before the presentation of the first annual budget on 28 February, by the new government. The government, led by Prime Minister Narendra Modi, was elected to office in May 2014 with a landmark single party majority. This was the first such decisive electoral outcome in the past three decades, leading to expectations of wide ranging pro-growth economic reforms. The average growth rate in the past 14 quarters has been a tepid 5.5 percent compared to about 9 percent achieved in the previous three years. This drop was mainly because of the collapse of private sector investment spending. The investment slowdown was aggravated due to infrastructure issues of electricity, delays in regulatory clearances and approvals and perhaps also policy gridlock. The last was particularly evident in projects which needed environmental considerations to be balanced against growth imperatives.

The Modi led government is expected to cut through many such Gordian knots, push economic legislation and help rapid scaling up of investments. This has been already anticipated by the stock market which performed spectacularly in the past 12 months. Modi has announced a goal of improving India's rank in the World Bank's ranking of Ease of Doing Business, aiming to be among the top 50 in the world. Furthermore, increasing the share of manufacturing in GDP to 25 percent is key to future growth.

One of the biggest anticipated reforms is the rollout of a nationwide goods and services tax (GST), which will bring all Indian states into a common economic market. This requires consensus of all the state governments in the federal setup and is slated to be flagged off in 2016. GST holds the promise of raising GDP by at least one percent on a sustained basis. It will also reduce tax leakage, due to interlocking incentives for compliance. India has one of the lowest tax-to-GDP ratios among its peers, so any measure that enhances tax collection in a painless fashion is always welcome. Investor sentiment is very positive as manifested by the buoyant stock market, which has also benefited from huge inflows from abroad. The government will also undertake selective privatization, and use that money to shore up physical and social infrastructure. There is a publicly announced commitment to fiscal discipline, with numerical targets for the deficit for the next three years, which will keep the rating agencies at bay.

Demographic dividends

India's demography is its big strength. It directly translates into growing consumption demand, savings, taxpayers and productive workers. Further, since the average age of the workforce will remain young, the economy can sustain a larger deficit for a longer period. So long as deficit spending is growth inducing—meaning producing infrastructure and public goods—it produces a virtuous cycle of growth, taxes and eventually lower deficit. If all the government's initiatives on large-scale skilling of the workforce, financial inclusion of all households, and digital connectivity progress as planned, we are likely to see a sustained growth phase for India. Economic growth and consequent tax resources are essential to meet the persisting challenges of poverty, malnourishment, low human development indices, especially in backward districts, and social security. Additionally, a big challenge is to chart out a growth path that will reduce the stress on the environment, use resources like water frugally and enrich ecology.

Closer ties with the world

India's engagement with the world is also deepening. It has more than a dozen free trade agreements in the pipeline, and to be concluded soon. Its trade-to-GDP ratio has gone up from 10 to 50 percent in the past three decades. Its export of IT services will triple in the next 10 years. India's 'Look East' policy has been upgraded to an 'Act East' policy. India is an active participant in the ASEAN + 6 i.e. RCEP negotiations.

The India-China trade relationship is one of the most dynamic and fast-growing bilateral relationships in the world. This is likely to be expanded to investment flows as well. There is a large unexploited strategic complementarity between the two countries, especially when it comes to investible funds and profitable projects.

In conclusion, one can safely predict that the march of the EMs will continue. The world's balance will tilt to the east. India and China's share in the global economy will increasingly mirror their population share. And at least in the near term, India will provide much of the growth impetus in Asia.

The views expressed by the author in this article are personal.

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Edmund S. Phelps
2006 Nobel Laureate in Economics
Director, The Center on Capitalism and Society
Dean, New Huadu Business School

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The Debt-Based-Growth Model Comes to an End

By **Gabriel Stein**

The world may be facing a secular change, away from debt-based output growth of over two decades. Some of the consequences of such a shift would involve lower long-term interest rates, a change in the role of banks, and possibly shifting housing patterns.

Over the past two decades, output growth increasingly became dependent on debt. In many countries, this became unsustainable and came to an end during the Great Recession. As a result, the world may be facing a secular change, away from debt-based growth. Some of the consequences of such a shift would involve lower long-term interest rates; a change in the role of banks; and possibly shifting housing patterns. Secular changes tend to take place over long periods. Nevertheless, some of the trends involved are already occurring and affect financial markets, in particular the slower growth of credit.

Twenty years of rising leverage and its end

For much of the early post-war period, the growth of non-bank private sector debt, broadly speaking, kept pace with the growth of nominal GDP. Measured as the incremental debt/GDP ratio on a five-year moving average, American households and companies borrowed one dollar for each extra dollar of GDP. To put it differently, each dollar of extra GDP was based on one dollar of extra debt in the non-bank private sector.

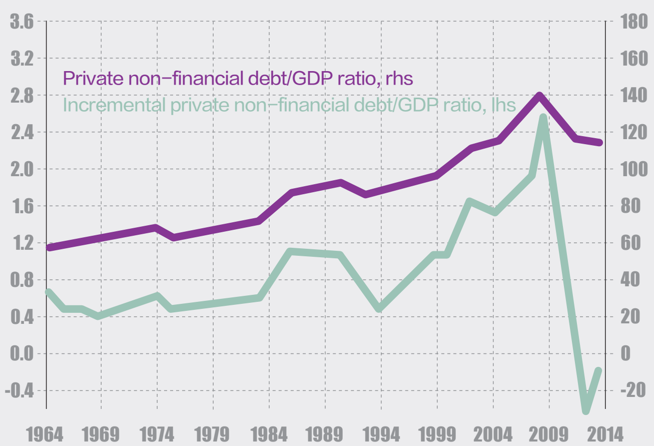
This trend was fairly stable until the 1980s. In the era of junk bonds and high leverage on Wall Street, the incremental debt/GDP ratio rose above $1.50, peaking at $1.67 in the five years to 1989. However, in the 1990s, the 'return to shareholder value' brought the ratio back down to around $1 again.

But, from 1994, the ratio began to climb sharply, passing $2 and $2.50, eventually peaking at $3.20 in Q2 2009. By that stage, the debt-based growth model had already collapsed and the Great Recession erupted. Deleveraging has since reversed the process, with the public sector being the main accumulator of new debt.

But there is a major difference between different sectors' debt. Governments do not have to repay debt, provided that their capacity to service the debt is perceived to be unimpaired. By contrast, households and companies have to repay debt, and, in the case of households, from current income. Their debt capacity is therefore more limited.

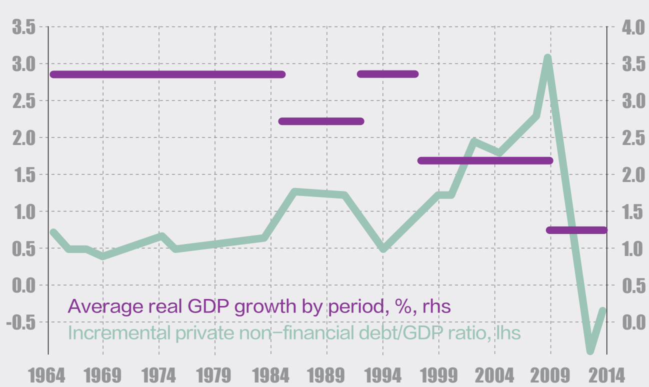
Gabriel Stein
Director, Asset Management Services, Oxford Economics

USA: Debt and output growth, 5-year ma
$ debt/extra $ GDP



Source: *Financial Flows of the United States*

USA: Debt and output growth, 5-year ma
$ debt/extra $ GDP



Source: *Financial Flows of the United States*

A rising debt/GDP ratio means that debt is growing faster than income. For some time, this can be sustained, not least if the debt is used to invest into something that will accelerate the growth of future income. But this is subject to a number of risks. One is the level of interest rates, which are a key determinant of the ability to sustain debt. A second is the problem of diminishing returns (or, rather, the need to invest more in order to achieve the same result). The third is the risk that asset prices can fall as well as rise.

What the future may bring

Memories of debt deflation are extremely powerful. The generations that lived through the 1920s and 1930s were extremely wary of borrowing, having lived through (depending on the country) between one and three debt deflation episodes. For instance, the Americans who had to pay down debt during the Great Depression never borrowed money until they died.

One consequence of the Great Recession is that monetary authorities have become more concerned with macroprudential stability. This can mean many things, but one thing they all have in common is more control over credit growth and therefore also less credit growth. This is not entirely misplaced. Almost every boom in history was preceded by rapid credit growth. Macroprudential tools – be they, e.g., higher capital/asset ratios in banks, lower loan-to-value ratios, forced amortization of loans, bans on specific types of loans or tighter controls over securitization – are all concerned with trying to control the excessive growth of credit. Although central bank policy in many countries cur-

rently is focused on accelerating credit growth, over the longer term, monetary authorities will attempt to hold back the pace of debt build-up.

The likelihood is therefore that the world will see a secular shift, where the incremental debt/GDP ratio in advanced economies will revert to its long-term stable ratio; and that this long-term stable ratio is around unity. (Bearing in mind differences between countries and the vagaries of the business cycle, perhaps a range from 0.5:1 to 1.5:1 is a better estimate.) The likelihood of this is strengthened by the fact that unity is also the ratio at which the rise in debt and the rise in income keep pace.

What less debt-based growth in the future means

One likely consequence of less debt-based growth in the future may mean a greater degree of rental housing, notably in the Anglo-Saxon economies, through tighter rules on mortgage borrowing. This means that first-time buyers, in particular, will find it more difficult to get onto the housing ladder – the more so if they just come out of university, already carrying substantial debt.

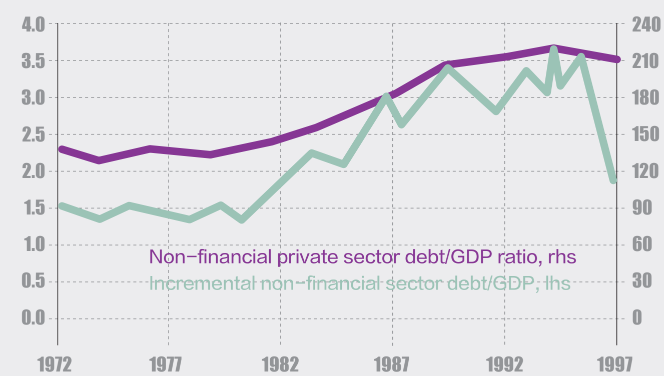
Larger deposits mean that households will need to build up savings, but at the same time, they will need somewhere to live. Moreover, they will now also be aware that house prices can actually fall – and fall substantially – leaving borrowers with negative equity. Housing can no longer be seen as a safe investment. Renting thus becomes more attractive.

Interest rates

The most important consequence of the changes analyzed so far, is that long-term interest rates are likely to be lower in the future than for much of the recent past. Increased household savings will exert downward pressure on long-term interest rates. This is the more likely as the current global climate tends to discourage excessive government deficit spending; while the world's biggest investor, China, is rebalancing its economy away from excess investment. In the medium-term, the world is therefore likely again to face an ex ante savings surplus. ('Lower interest rates' here means 'lower than in the pre-Great Recession period.

Japan: Debt and output growth, 5-year ma

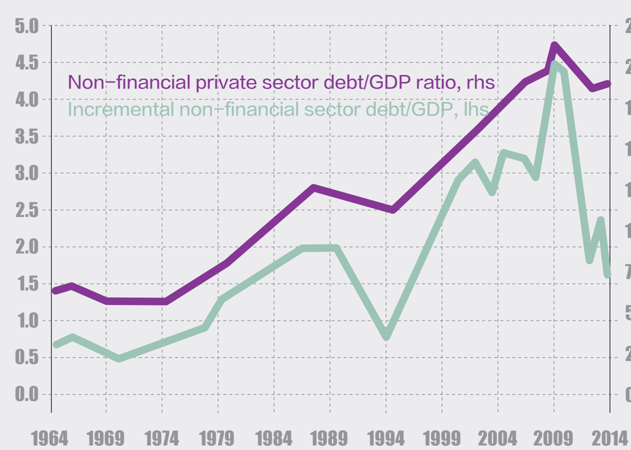
¥ debt/extra ¥ GDP



Source: Oxford Economics/Haver Analytics, BIS

UK: Debt and output growth, 5-year ma

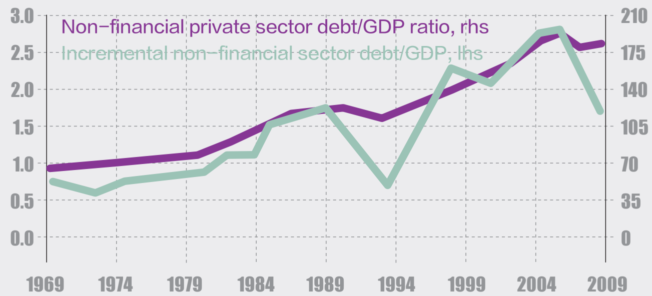
£ debt/extra £ GDP



Source: Oxford Economics/Haver Analytics, BIS

Australia: Debt and output growth, 5-year ma

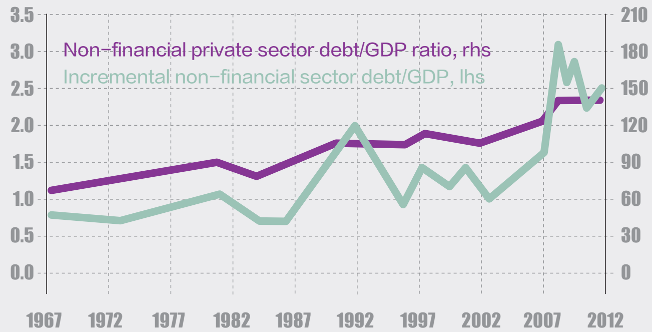
A$ debt/extra A$ GDP



Source: Oxford Economics/Haver Analytics, BIS

Canada: Debt and output growth, 5-year ma

C$ debt/extra C$ GDP



Source: Oxford Economics/Haver Analytics, BIS

Relative to their current levels, interest rates are still more likely to rise than to fall over the medium term.)

Banks' balance sheet

If the relative importance of housing loans in banks' balance sheets diminishes, one of two things must happen. Either banks' balance sheets will grow less rapidly, or the composition of assets has to change, with some other asset growing in importance. Judging by developments since the financial crisis began, the more likely development is an increased relative importance of (mainly) short-term government paper (T-Bills in the US case).

This should be good news for banks. One of the key developments that made the banking system more fragile in the run-up to the crisis was the erosion of banks' holdings of cash and instruments that could be (almost instantaneously) transferred into cash. This change is understandable, since neither cash, nor near-cash instruments, provide much of an attractive return. However, they do provide safety, which once again is a crucial consideration.

The role of banks

A further consequence for banks is that their role is likely to evolve. If credit plays a smaller role in the economy than hitherto banks may shift towards more investment banking and private equity-like activity.

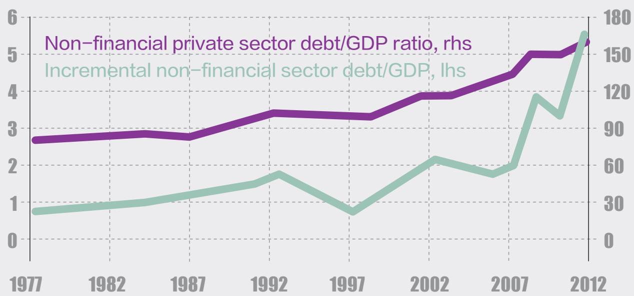
In turn, this is likely to lead to a further development of shadow banking. Whether this means greater financial instability or not will ultimately depend on how financial regulators react to this development.

The rate of growth

Can we really have growth that is not debt-induced? Judging by history, certainly. Economies can grow without credit growth at all and they can grow with lower credit growth than we have seen over the 15-20 years to 2008. They can even grow strongly. In fact, we can go further: The chart below shows that the long-term average of real GDP growth was faster when the incremental debt/GDP ratio in the non-bank private sector was lower. There will have been other factors in play. But the numbers do indicate that non-debt induced growth does not have to mean slower growth.

France: Debt and output growth, 5-year ma

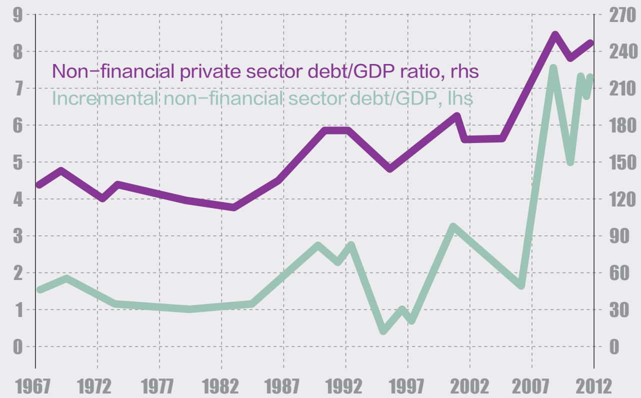
€ debt/extra € GDP



Source: Oxford Economics/Haver Analytics, BIS

Sweden: Debt and output growth, 5-year ma

SEK debt/extra SEK GDP



Source: Oxford Economics/Haver Analytics, BIS

Other countries' experience

This article has used the U.S.A. as an example, because the US data is the most readily available and goes back to the early 1950s. For other countries, we use data from the BIS, which usually begins in 1960 but ends in 2012.

The experience of other countries varies. The charts show a division in three groups. The first group – Japan, the U.K. and Australia – parallels the experience of the U.S. The second group – e.g., Canada and Sweden – began to deleverage, but has returned to taking on more debt. The third group (e.g. France) had by 2012 not yet begun to deleverage.

The experience of the latter two groups raises the question why they are different. There are a number of different possible answers, although none of them is fully satisfying. One could be that the debt build-up only took off after the Great Recession, when interest rates had fallen to rock-bottom. By contrast, the debt build-up in the U.S., the U.K. and others occurred at higher interest rates. If correct, the countries where leveraging is still going on, are storing up problems for the day when interest rates begin to rise.

Another possible explanation is that households with a higher savings ratio can sustain higher debt than households with a lower savings ratio.

It could also be that higher asset prices help off-set higher debt. But this is not a complete answer either, because houses (the key household asset) do not generate an income stream from which debt can be serviced.

Rapidly rising debt would also be more sustainable if the initial debt level was low. However, a quick look at the charts at the end shows that there is no clear pattern supporting this thesis.

It may also be that there is no simple maximum sustainable debt ratio. Michael Pettis, Professor at the Guanghua School of Management at Peking University, has repeatedly made the point that, at least in the case of government debt, debt becomes unsustainable when it is suddenly deemed to be unsustainable. This may be true of the private sector as well.

Why Grexit Would Not Help Greece
Debunking the Myth of Exports

By Guntram B. Wolff

An exit is unlikely to help the Greek economy much, as devaluation would not help regain its competitiveness, and exports would not react considerably to changes in wage costs due to the sclerotic economy.

The genie is out of the bottle: Europe is again discussing the possibility of Greece leaving the eurozone. With it, the debate has re-emerged regarding whether this would be helpful or not for Greece and whether there would be contagion to other euro area countries. The big questions are, of course, how the Greek financial system would survive an exit with a debt restructuring; how long it will take until Greece would regain access to financial markets; and how big the benefit of a debt restructuring is given the relatively low interest load. The absence of external help would be a further factor weighing on Greece. All of these factors speak clearly against an exit from the point of view of Greece.

But I want to focus on the claim that Greece needs to exit in order to devalue so it can regain competitiveness and grow again. This point has again been made prominently by Professor Hans-Werner Sinn of Ifo Institute in Munich.

Devaluation would not help regain competitiveness

So what do the data tell us? Greece, Ireland, Portugal and Spain all had very significant adjustments of their current accounts since 2007 from high deficits to close to balance or surplus. However, the composition of the adjustment has been very different (see chart below). In Ireland, Spain and Portugal, the largest part of the adjustment came from an increase in exports. All three countries have therefore managed to change their production structures and substantially increased exports. This is a desirable and healthy way of adjusting, which also shows that it was not primarily a demand compression that drove the external adjustment in these three countries. Also in Italy, the increase in exports was larger than the decrease in imports.

Greece stands out as an outlier in external adjustment. Its adjustment was almost exclusively driven by a contraction in imports while exports have only very recently been positive.

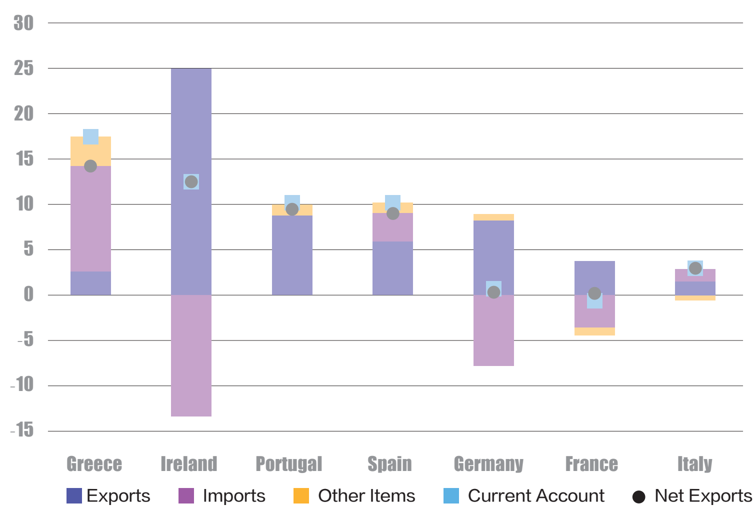
This raises the question of what is hampering export performance in Greece. Are high wages or the absence of a real depreciation the main drivers of the different adjustment experience of Greece compared to the other euro area countries? The following graph shows wages measured in euros in the private sector. As we can see, hourly wages have come down substantially in Greece and are in fact the lowest in the euro area except Latvia and Lithuania (not included in the graph). This contrasts with the experience in the other three programme countries (Ireland, Portugal and Spain), where hourly wages in the private sector have, despite the adjustment efforts, increased.

Correlating the change in exports with the change in wages in the private sector shows that Greece is an outlier. Notwithstanding a dramatic drop in nominal wage growth over the period from 2007 to 2014, export performance remained weak, and did not pick up as we have seen in other countries. The following scatter plot illustrates further that Greece is a clear outlier, as are Lithuania and Slovakia.

Overall, I conclude that the Greek economy would not benefit as much as hoped for from a rapid depreciation. The reasons for the weak Greek export performance might primarily lie, among other factors, in rigid product markets, a political system that prevents real change and guarantees the benefits of the few; as well as a lack of meritocracy, nicely outlined by Brookings scholar Pelagidis. To the extent that the Troika can help reform the country, an exit of Greece from the euro would even be counterproductive.

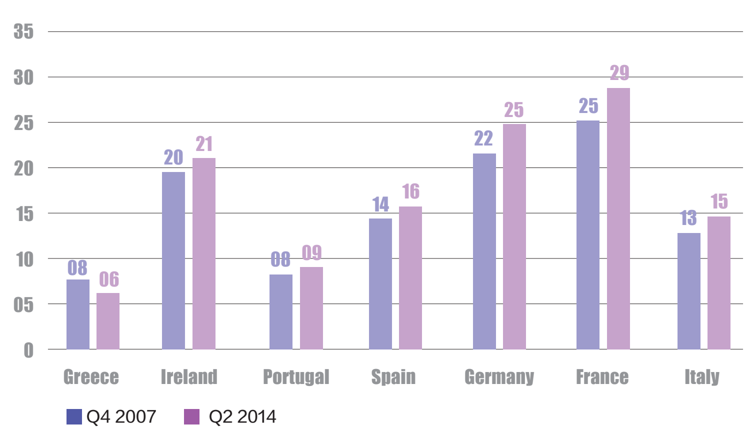
This does not mean that the current debt trajectory and debt level is sustainable. It may be necessary to further alleviate the debt burden on Greece, especially if inflation remains low and growth is weaker than the Troika expects it to be. Such debt relief measures have been done a number of times before by the official creditors and, looking ahead, further measures to alleviate the Greek debt burdens without incurring losses

Change in the current account 2007-2014



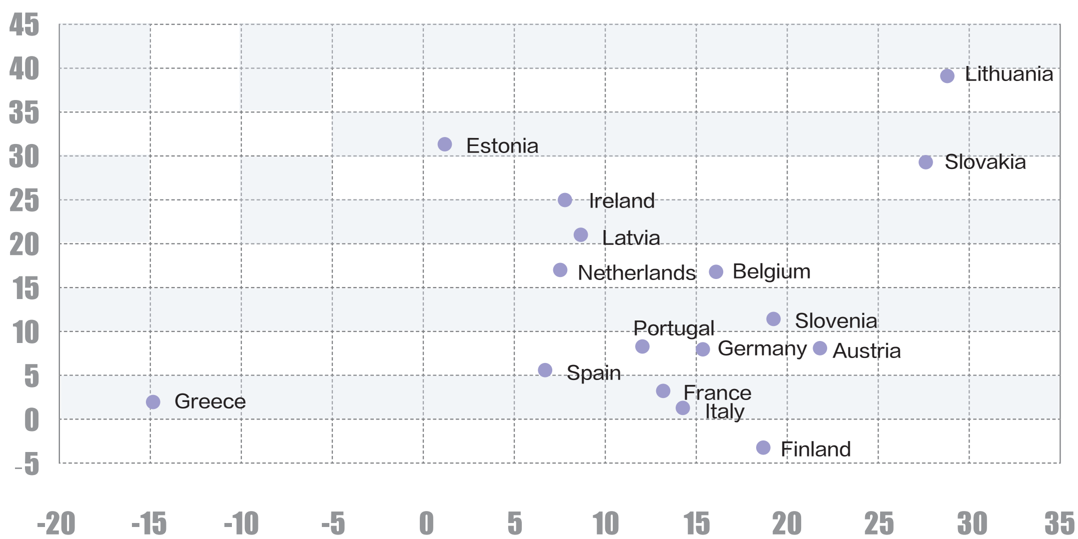
Source: AMECO Autumn 2014 Forecast.
Note: Nominal change in euros measured as percent of 2014 GDP. The sign of the change in imports is inversed so that an increase in imports is shown as negatively affecting the current account.

Private Sector: Hourly Labor Compensation (EUR)



Source: Calculated using Eurostat's quarterly national accounts dataset (labour compensation divided by hours worked).
Note: For Germany, Ireland, Italy and Portugal Q1 2014 data is used instead of Q2 2014 since the latter is not available.

Nominal change in wages 2007-2014



Sources: AMECO Autumn 2014 Forecast and Eurostat's quarterly national accounts dataset.
Note: Nominal change in exports is given as % of 2014 GDP. Nominal change in wages calculated as nominal % change between Q4 2007 and Q1 2014.

for Euro-area creditors are still feasible. In fact, the average maturity could be extended beyond the current 30 years. Also, the lending rate on the European loans could be reduced even further. All of this would not translate into more money for Greece to spend right now, but it would greatly improve the sustainability of the debt burden further.

Likely financial and economic disruption

An exit of Greece from the euro would cause extensive financial and economic disruption, with significant negative impacts on its domestic economy, prompting bank runs and capital flights from Greece. Capital controls would have to be enacted, which could not then be lifted easily, as shown in the case of Cyprus. A newly issued Greek currency would collapse in value, leading to high inflation and at the same time forcing banks and businesses with large foreign currency debts into bankruptcy. Furthermore, Greece would be cut out of the market for a certain time and borrowing costs for Greek businesses and society would skyrocket, contributing even further to another recessionary development.

Compared to 2012, the risk of financial contagion to other euro area countries is less acute, with the ECB now acting as lender of last resort, a healthier financial system and a new European governance structure set in place. However, a likely massive depreciation of a new Greek currency, followed by a potential default of Greek banks and non-banks would endanger private sector claims on Greece from all over the Euro area, on top of the official losses, which would have to be accounted for. Also, the long-term political effects of the irreversibility of the Euro should not be underestimated. This would mean that the euro area has failed to establish the tools necessary to guarantee the survival of its weakest members.

To conclude, an exit is unlikely to help the Greek economy much, as exports do not react considerably to changes in wage costs due to the sclerotic economy. Instead, it is in the interest of both Greece and its euro-area partners to find a comprehensive agreement that would avoid default and exit.

Guntram B. Wolff
Director of Bruegel

Cover

Europe, America and China Have the Same Economic Problem

By **Edmund Phelps**

> Each of the world's major economies – the EU, America and China – are slipping into its own "new normal". While they offer an escape from poverty, all of them are, to varying degrees, lacking in human flourishing.

Each of the world's major economies – the European, the American and the Chinese economy – is slipping into its own "new normal" and each one is unhappy in its own way. These economies offer an escape from poverty. But Europe is seriously lacking in self-support. America is woefully lacking in prosperity. And all of them are, to varying degrees, lacking in human flourishing.

The European Union

Measured by its gross domestic product, the economy of the European Union is very large – larger than American and Chinese economies. Its decline acts to reduce wages in the rest of the world. More important, Europe was – for more than a century – a major source of new products and a key source of advances in science and the arts. We will all be the poorer if Europe goes on failing to recapture its brilliant past.

In the past two decades it has become apparent that the European economy is in very poor condition. It is common ground that, now, in 2015, the aggregate output – the Gross Domestic Product – of the European economy is far below the previous trend path – below the trend line we might fit to historical data up to 1995. Yet European economists believe with few exceptions that nothing is radically wrong with the European economy – nothing that would require structural rehabilitation extending to the entrepreneurial heart and innovative brain of the economy. Nevertheless it is interesting to note what these economists, observing that the economy is not well, are diagnosing and *prescribing*. And we may learn something that may sometime be useful in our own economies.

Many economists speak of a loss of competitiveness, particularly in the south of Europe – in Greece, Italy and Spain. They imply that output is down, relative to trend, largely because wages got out of line with productivity, forcing firms to cut back – a case of wage misalignment. Taking this perspective, German economists argue for wage deflation in the affected economies; the Keynesian economists argue for monetary stimulus in order to raise prices (relative to wages) and state investment in infrastructure to create some more jobs.

The background to the adoption of this perspective is the sharp productivity slowdown that hit Germany, Italy, France and Spain around 1998; and Britain around 2005. Although wage rates have remained in line with productivity in Germany and Britain – and employment has held up pretty well there – wages got out of line with productivity in Italy, Spain and Greece during the boom years of the late 1990s, and in the early 2000s wages got ahead in France and farther ahead in Greece. These wage misalignments may very well explain the drop in the employment of men – relative to the population of men – from the period 1990-1995 to the period 2010-2012 in Italy and Spain as well as Greece. But, in Italy, France and most conspicuously in Germany, we see a bigger drop of the employment-to-population ratio from the 1970s (in Germany and Italy) or the 1980s (in France) to the 1990s. Were those drops in employment also the result of wage misalignments? Is every fall of employment a market failure? Of course not! No one would believe it is mainly an accumulation of such misalignments that has brought declining employment and thus output not keeping up with its trend path. There must be some other forces at work.

Economists have staged a fierce debate over two warring schools. In the classical view, which I myself have expounded (in the *Financial Times*), it is to some extent a contraction of labor supply that has led to a decline of employment – and thus to lagging output. And it is largely outbreaks of fiscal profligacy in Europe, most pronounced from the mid-1990s to the mid-2000s, that led to that contraction: In Greece, Italy and, to a lesser extent, France, there were tax cuts and spending increases, which added to households' estimates of their private wealth in relation to their wage income, and there were expansions of entitlements to future benefits, which added to people's estimates of their social wealth relative to their income. (The European Union also donated lavish "structural funds" to Spain and Greece, which further increased people's wealth relative to their productivity. Brussels made some of them rich. Even public sector wage rates rose to the sky in Greece.) Bloated with wealth, many employees must have lost some of their incentives to perform well, so companies' costs of production went up;

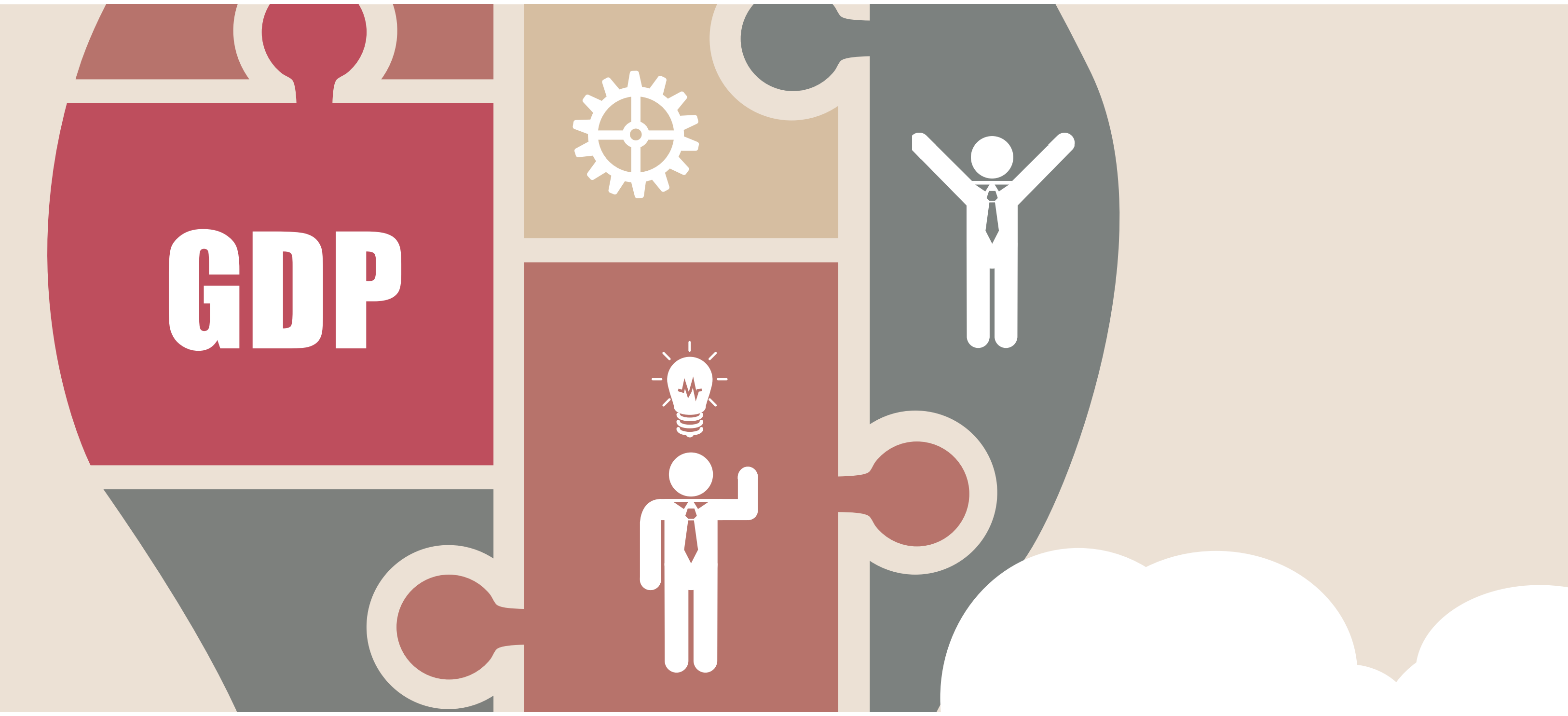
and many households cut back their labor force participation – delaying employment or retiring sooner.

In the Keynesian view, an increase in household wealth serves to raise employment by adding to consumer demand. Keynesians suppose it is a decline of "aggregate demand" that has reduced employment, pulling output down with it. As they see it, southern Europe needs more of that fiscal "profligacy," not the "fiscal austerity" forced on them, to reverse the fall of employment. (There is statistical evidence on the classical side: There is a negative relationship between the household wealth-to-income ratio and (1) labor force participation as a ratio to active-age population as well as (2) employment as a ratio to active-age population size.

However, this current debate between "Keynes" and the "classics" misses the big picture. The major cause of the huge losses of output – relative to the historical trend – ever since the 1970s or 1980s is the sharp slowdown of European productivity. This slowdown is the result of two losses of innovation. First in the 1960s, European innovating, though never very strong in the postwar years compared to what it was in the previous 100 years, appears to have slackened, so that Europe was totally dependent for sustained productivity growth on American innovation. Second, in the 1970s, American innovating slackened. Europe was able to draw further on the pool of past American innovations until that pool was virtually exhausted in the mid-1990s. That helps us to understand why European productivity growth slowed so sharply.

Right now, in early 2015, southern Europe is suffering a slump of employment – mainly due to lingering uncertainties about finance in the aftermath of the recent financial crisis and about monetary and fiscal policy. Few businesses are investing, so few workers are hired to produce capital goods. But, even if Europe soon recovers from this slump, Europeans in the north as well as the south have to face the consequences of an economy that has had no significant productivity growth for two decades and has no prospect of achieving such growth – on its own, at any rate – in the near future. Europeans are going to have to go without the wage increases to which they became accustomed in the postwar decades. Europeans are going to go on facing companies in which few employees are involved in any engaging, challenging or creative work. Finally, Europeans are going to face the fact that employment will go on being weak owing to poor current productivity growth and poor expectations of productivity growth over the foreseeable future.

Worse yet, Europe will find itself in a vicious circle: Already a half million young Europeans have begun a new life overseas just in the past two years and a quarter-million or so can be expected to leave every year as long as there is a dearth of opportunities for rewarding, gratifying work in Europe. And as Europe goes on hemorrhaging its best talent, its possible ways out of its



stagnation will become even narrower.

This ongoing implosion of Europe presents not only the known dangers – the loss of trade and investment opportunities for the rest of world as a whole – but also unknown dangers. We have not seen in a very long time a prolonged stagnation of a high-income economy extending over a whole continent.

America

What came to be called the "Great Productivity Slowdown" appeared in America in the late 1960s. The annual growth rate of Total Factor Productivity, the productivity of labor and capital combined, after running at an average rate of 2 percent since 1922, slowed by 1972 to an average of 1 percent ever since. Americans, including me, had no idea how disastrous this would prove to be.

The only plausible explanation for this slowdown is that the rate of aggregate innovation in the American economy fell in the 1960s and has remained low. On Wall Street, this interpretation is resisted. "Don't you know," they say, "that Silicon Valley in California and Route 128 in Massachusetts have been prodigiously innovative?" The misunderstanding is resolved by noting that innovation has declined sharply in the older industries, which are found mostly in the heartland of America – in the interior of the country. Silicon Valley and Route 128 are still not big enough to offset a near-disappearance of innovation over most of the economy. The entrepreneur and angel investor Peter Thiel, who has a deep knowledge of Silicon Valley, believes that Silicon Valley is no longer radically innovative – it has been mainly engaged in elaborations of a few radical innovations in the past.

For the growth rate to be maintained, each year's innovation must be proportional to the current stock – while the stock is getting higher and higher. So maintaining the old growth rate constantly requires human imagination to be increasingly far-reaching. Yet America did it for more than 100 years.

What forces might have caused America such a large drop in the rate of growth in its stock of innovations? My book Mass Flourishing contains a lengthy discussion and here I will identify several of its hypotheses.

For widespread innovation in a nation the people must have the "dynamism" required to spark it. I suppose young Americans are still growing up with an undiminished "desire" to innovate – to conceive the new and to make a difference in the world. However, it appears from interviews and surveys that a great many young people who would have been expected to be aspiring innovators a generation ago are inhibited from pursuing such a life. American society has come to place less value on individual exploration and creativity. Family, friends and community put increased pressure on the individual not to break away or to stand apart. The rush to sever ties and "go west" to take part in its development would be unimaginable today. Money has become the metric for assessing a person's success and main satisfactions: Parents and spouse urge a young person to opt for high pay and job security rather than to embrace uncertainty and to journey into the unknown. Pathological materialism leads to rampant short-termism in business and finance. No wonder people who grew up hoping to embark on a career of challenge and adventure forget this dream and drift into a lesser life.

Questions can be raised about whether, in recent decades, young people throughout American society have possessed the intellectual equipment – the capacity – required for innovating. In general, an innovator had to have insights into whether the newly conceived product would succeed in the market – insights typically born of business experience as well as "talent." The baby boom generation brought into the labor force many people who were much less familiar with the world of business than the people of the previous generation and much less interested. The new generation may be different.

Societies must give aspiring innovators wide latitude if innovation is to be widespread. Yet huge blocks to innovation have been erected in America. Vested interests, such as established companies – their owners, the management and the work force – feel entitled to be defended against the competition that new innovators would bring and to bailouts in the event they suffer losses of market share to new competitors. Politicians, for their part, feel entitled to curry the favor of interest groups. This is the culture of social protection. A result is that any aspiring innovator contemplating an attempt to bring a new product or method to an established industry will realize that he or she would be doomed to failure because the state will protect the incumbent companies from losing their market share. In the past couple of years, some young giants in the so-called technology fields, such as Google, have begun to invade traditional industries.

The prospect for the foreseeable future, therefore, is a near-stagnation of productivity and wages, a deficiency of engaging work, and weak employment – similar to Europe, but not as severe as long as new industries, with their new products or methods, are conceived, developed and some are successful.

Now, in early 2015, America has achieved the semblance of a recovery. A rough recovery from a crisis is a natural result of a bulging shelf of new ideas still unexploited and the accumulation of retained profits waiting to be invested. Recent data put the unemployment rate at about the level of 1995-96 – after the recent recession and before the internet boom. We could even go as far as to say that a boom is going on – in the midst of long-term stagnation – thanks to the innovation called "fracking" and to the flight of capital from Europe and elsewhere, which has made it easier for investing and innovating to obtain finance. Yet labor force participation has plumbed new depths, growth of real wage and productivity remains meager and no rise in job satisfaction has been reported.

Much ink has been spilled over the Keynesian thesis that it was a rejection of "fiscal austerity" that enabled the American economy to "recover" while Europe did not. But there has not been much in the way of permanent increases in government expenditure in the aftermath of the financial crisis, only a welter of temporary spending measures now generally expired; and no permanent tax cuts. Quite the contrary, many tax rates were increased and huge numbers of government employees were terminated until the public payrolls were leaner than before. Furthermore, it is quite possible that we shall see the boom peter out – that the boom will end in a year or two, just as all booms do.

China's economy

We all know that China through a combination of trade, investment, relocation of labor and "transfers" of technology from abroad has achieved a stunning wage growth, better jobs and higher employment. But it should be clear that these avenues for continued economic growth go only so far. Efforts along these lines are running into diminishing returns.

The economy will have to offer much broader opportunity for work that is stimulating and fascinating – for mass flourishing!

For both these reasons, China will soon be in the same situation as Europe and America are. It must begin to find ways to expand its indigenous innovation from the elites in the tech industries to all kinds of industries and all sorts of people down to the grassroots of society – just as Europe and America must do if they are to regain wide prosperity and mass flourishing.

What is required? Boost the enablers of innovation such as education. Boost the dynamism for innovation by removing the inhibitors created by traditional cultures. And remove the blocks like social protection and smothering regulations.

It is clear that the Chinese want to aim for precisely that – for grassroots innovation and what they call "self-development." Most Americans do too. We will have to see what the Europeans want.

Edmund Phelps
The 2006 Nobel Laureate in Economics; Director, Center on Capitalism and Society, Columbia University; Dean, New Huadu Business School; Author of *Rewarding Work* (1997) and *Mass Flourishing* (2013)


one day you might have to tell your
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Experts predict that within 100 years, natural lands and water resources will become scarce. Climate change will irreversibly alter the planet. And the habitats that support all life could be lost forever.
Support our mission to protect the future of our natural world. To make a difference that lasts, join The Nature Conservancy.
Shigu Village, Yunnan by Ami Vitale

Asian Integration, Offshore Renminbi, and Infrastructure Finance

By Ravi Menon

The increasing integration between China and ASEAN coupled with the growing importance of financial services in Asia has underpinned two important trends in Singapore's financial center: the growth of the offshore Renminbi market and the development of infrastructure financing.

Asian growth and integration

The economic rise of Asia during the last five decades is one of the biggest growth stories in history. In 1950, China, India and the ASEAN economies accounted for 15 percent of global GDP. By 2000, that share had doubled to 30 percent. Asia will continue to be the most buoyant region in the world in the decades ahead. By 2030, the Asian Development Bank has projected that China, India and the ASEAN economies will together make up nearly 40 percent of global GDP and their combined economic weight in purchasing power parity terms could exceed that of the U.S. plus Europe.

A key driver as well as consequence of Asia's economic growth is the rise of the middle class. The Asian middle class is projected to surge six fold from 500 million in 2010, to 3 billion by 2030. The rapid expansion of the middle class, coupled with ongoing urbanization, will drive consumption and investment throughout the region. It will transform Asian societies and accelerate the accumulation of wealth.

Rising affluence will increase the demand for financial services. As household income increases and wealth accumulates in Asia, the demand for financial services – such as insurance and asset management – will grow significantly. By 2020, assets under management in Asia is expected to expand by 60 percent to reach US$176 trillion. The region is also projected to account for almost 40 percent of the global insurance market.

ASEAN's economic importance will grow. With a population of over 600 million and

Ravi Menon
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combined GDP of US$2.4 trillion, ASEAN is a market of enormous potential. With rising affluence, consumer demand is projected to grow strongly, expanding regional and international linkages and spurring market reforms. Over the years, ASEAN member states have been progressively integrating their markets by eliminating trade barriers for goods and services and increasing capital mobility. This year, in 2015, ASEAN member states will be making a significant advance towards the realization of a single market with the establishment of the ASEAN Economic Community (AEC).

ASEAN is also set to become China's largest trading partner. The launch of the ASEAN-China free trade area in 2010 has catalyzed bilateral trade by more than 50 percent, from US$293 billion in 2010 to US$444 billion in 2013. As a trusted and dynamic business and financial centre, Singapore is an efficient conduit to facilitate these trade and investment flows as well as a natural gateway for international investors to access ASEAN.

The increasing integration between China and ASEAN coupled with the growing importance of financial services in Asia has in turn underpinned two important trends in Singapore's financial center: the growth of the offshore Renminbi (RMB) market and the development of infrastructure financing.

Singapore as an offshore RMB center

Reflecting China's growing economic and trading heft, the RMB is poised to become an increasingly important currency in Asia. The RMB is already the fifth largest global payments currency and it will take on a larger international role as more multinational companies and Asian corporates use the RMB for their trade with Chinese enterprises.

Singapore can play a catalytic role to broaden the international use of the RMB. As the largest foreign exchange market and a leading trade and commodity trading hub in Asia, Singapore serves to facilitate the use of the RMB for trade, hedging and cash management amongst corporates in the region. Singapore's liquid and vibrant capital markets as well as strong asset and wealth management capabilities can spur the development of innovative RMB-denominated products. Singapore's exchanges can also promote greater trading liquidity of Chinese securities and derivatives to international investors through cross-listings.

Today, Singapore is the largest offshore RMB hub after Hong Kong and offers an expanded range of RMB-denominated products. RMB deposits grew more than 40 percent year-on-year to RMB 277 billion in Dec 2014, while average daily RMB foreign exchange turnover grew more than two times to US$76 billion in the same period. Outstanding RMB-denominated bonds issued, also known as "Lion-City" bonds, exceeded RMB 35 billion in 2014. The Singapore Exchange also launched RMB foreign exchange futures contracts in October 2014, providing a wider selection of hedging instruments and broadening the suite of pan-Asian exchange-traded products available in Singapore. Given the strong growth of RMB activities, MAS launched a facility to provide overnight RMB liquidity to banks in Singapore.

Strong bilateral cooperation between China and Singapore has underpinned the growth of the offshore RMB market in Singapore. At the 2013 high-level Joint Council for Bilateral Cooperation meeting between Singapore and China, three significant initiatives were launched to promote the international use of the RMB through Singapore:

First, rules were established to allow corporates in Suzhou Industrial Park (SIP) and Tianjin Eco City (TEC) to issue RMB bonds in Singapore.

Second, direct trading of the RMB and the Singapore Dollar was launched on the China Foreign Exchange Trading System (CFETS).

Third, the Renminbi Qualified Foreign Institutional Investor (RQFII) program was extended to Singapore, with an aggregate quota of RMB 50 billion to facilitate cross-border institutional investments.

China and Singapore are now expanding financial cooperation to encompass capital markets and insurance, following the latest JCBC meeting in October 2014. Deeper co-operation in these areas strengthen and broaden financial ties between the two countries, allowing Singapore to support the growing trade and investment linkages between ASEAN and China.

Singapore as an infrastructure finance hub

A growing Asia will need large investments in infrastructure. Better infrastructure will enhance connectivity, reduce the cost of transactions, help to grow markets, and raise living standards. Asia's infrastructure finance needs are projected at US$800 billion annually until 2020. Given the scale of the needs, private sector participation and intermediation through the financial sector are thus important.

The US$100 billion Asian Infrastructure Investment Bank (AIIB) will contribute to meeting the region's immense infrastructure development needs. In addition to being a significant source of multilateral development financing, the AIIB will play a useful role in enhancing infrastructure connectivity and promoting regional prosperity.

Singapore is working in partnership with a diverse group of stakeholders to create a viable ecosystem for infrastructure finance in Asia. There are a range of public-private sector efforts to bring together banks, institutional investors, capital market intermediaries, project sponsors, and the multilateral agencies to help develop a steady pipeline of bankable projects, facilitate financing, and make infrastructure an investible asset class.

The World Bank Group Singapore Hub draws together the different infrastructure expertise along the transaction chain. It synergizes the project management capabilities of the World Bank with the structuring expertise of the International Financial Corporation (IFC) and the credit enhancement facilities of the Multilateral Investment Guarantee Agency (MIGA) to deliver practical project advisory and financing solutions to governments across Asia and beyond.

The Asian Infrastructure Center of Excellence (AICOE) based in Singapore is working with governments to catalyze infrastructure development. The AICOE will select infrastructure projects based on needs in the region, grow them to a bankable stage, and match these projects with private investors.

The combination of these efforts towards financial integration and infrastructural investments in the region will enhance Asia's long term growth and development. As a major international financial center, Singapore will serve to intermediate the flows of savings and investments, helping to finance growth, manage risks and connect markets in Asia.

P2P Information Regulation Should Be Implemented on the Basis of Data

By Xie Ping

In 2014, the prosperous growth of Internet finance highlighted a number of teething problems. P2P network lending is a new form of financial organization which best embodies the very characteristics of Internet finance, and is receiving increasing attention and recognition both in China and abroad. December 12, 2014 saw the successful debut of Lending Club, the world's largest P2P lending platform, on the New York Stock Exchange. Many of China's financial institutions and industrial capital have also made strategic plans for Internet finance, and this together with the positive response of government policy makers has encouraged the healthy development of Internet finance. Although there remain a number of problems with P2P network lending, the development of Internet information technologies and an increasingly sound social credit system mean that P2P will eventually emerge as a powerful, vibrant force, and gradually ensure a more rational path to prosperity.

P2P is an arrangement that best represents Internet finance

P2P is not merely a technical tool. It also marks a completely new start in terms of concepts and methods. In its narrow sense, P2P refers to P2P network lending, namely crowd fund-raising. In its wide sense, P2P refers to the financial transaction behavior in which participants engage directly over the Internet including: crowd fund-raising using various financial products, P2P currency swaps, and even online charity fund-raising. But its main feature is the use of Internet technologies to promote financial disintermediation. Parties seeking financial products can use different Internet apps to seek out financial product providers and determine the most appropriate match of risk and length. In this way, the Internet becomes a self-organizing financial market with the individual as its core, relationships as its binding forces, and incorporating information and transactions.

P2P network lending is a new form of financial organization which best embodies the very characteristics of Internet finance, and is characterized by its Internet connectivity, high-speed matching, massive data and near-zero margin costs; all of these provide P2P with advantages which no traditional financing system can match.

First of all, it greatly expands the boundaries of the financial transaction arena, and effectively reduces the transaction cost of financing activities. The P2P market can shatter the transaction cost constraint, thus making P2P more suitable for small- and micro-loans, cross-border loans or other fast-paced financial transactions, achieving a fast turnaround of funds. This unique advantage in terms of efficiency means that the P2P network lending market could in theory become the most efficient market available for the allocation of credit resources.

Secondly, it best reflects the spirit of Internet finance. Finance should shed its elitist characteristics, as the core spirit of the Internet incorporates

China's P2P industry has been a mixed bag in recent times, its path littered with runaways and bankruptcies, leading to the public at large voicing a variety of doubts. A precondition for the healthy development of P2P network lending is basic data and external regulation. P2P regulation should always be based on information regulation on the basis of data. An information disclosure principle similar to direct financing should be adopted, focused on full disclosure of information. This should include: shareholder information, transaction procedures, management structures and backups of transaction records.

freedom, openness, equality, sharing, mass appeal, democratization and decentralization. These very characteristics will certainly achieve more equality for all. At present, P2P is the financial market which best captures the mass appeal and democratization of finance. It ensures that individuals with good credit ratings are able to obtain lower rates of interest, and that the man on the street can issue loans in the same way as specialist financial institutions, and fully exercise his own financial rights.

Thirdly, it promotes the financial marketization process, and accelerates financial disintermediation. P2P can effectively lower the social cost of capital in a way which is more conducive to economic development. In the short term, P2P actually remains an 'old wine in new bottles' credit intermediation business, but against the background of Chinese financial regulation, this initial form of P2P has injected new life into China's traditional private lending, making up for the long-standing lack of small and micro loans and high-yield bonds in Chinese financing. Furthermore, it not only encourages traditional financial institution monopolies to become more competitive promoting the marketization of interest rates, but is also a major step forward in forcing the bottom-up regulatory reform and reducing regulation over the finance sector.

The scale of P2P remains small for the time being, but it is growing at a rapid rate. This can be attributed to three major factors: the first is the major leaps forward achieved in information technology, mobile Internet and third party payment technologies; the second is the liberalization of financial regulation – the lack of any specific regulatory requirements for P2P and lucrative returns have driven the setup of large numbers of P2P platforms; and thirdly, segmented market demand—the major demand for private lending and other small and microloans or high-yield bonds is directly reflected in the growth in P2P loan amounts.

The lack of a comprehensive credit system is the core hindrance to the development of P2P

Basic data and external regulation are preconditions for the healthy development of P2P network lending. Chinese P2P is currently still in the wilderness stage of development, and is very much a mixed bag; its path littered with runaways and bankruptcies. As a result, the public has voiced a variety of doubts. This situation has been caused by a lack of regulation and low barriers to entry, and additionally China's lack of a comprehensive credit system, which means that P2P platforms lack large amounts of basic data, thereby hampering credit assessments, loan pricing and risk management for Internet lending.

Due to insufficiency in basic data and the intensity of competition, guarantees have to be provided for P2P during its initial phase, and major amounts of offline due diligence legwork are required, resulting in higher operational costs. Under such conditions, a number of P2P websites have been forced to take out principal protection, allocate risk reserves, hire professional lenders, or apply creditor's rights transfers, link with assets management capital pools or other measures. A certain amount of regulatory violation is unavoidable, and short-term liquidity problems due to moral risk and the risk of default have prompted owners of some P2P platforms to run away.

However, these issues will improve with the accumulation of data. Not only is China's social credit system gradually improving, but P2P itself is also continuously accumulating data. Once the P2P mechanism has repeated itself sufficiently, the development of P2P data accumulation will form a positive feedback mechanism. Massive data will support P2P platforms in their quest to more accu-

Xie Ping
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rately control risk and ensure the normality of their operations, and thus reduce bad loan levels and operating costs, eliminate the need to provide guarantees and ensure that they become fully-fledged information intermediaries.

Full disclosure of information is the key to P2P regulation

P2P regulation should always be information regulation based on data. Currently, the Chinese regulatory theory is totally focused on the setup of banks, insurance companies and other traditional institutional structures.

As information intermediaries, P2P regulation should adopt an information disclosure principle similar to that of direct financing, focused on full disclosure of information, including shareholder information, transaction procedures, management structures and backups of transaction records. Use can be made of modern information technologies, especially powerful search engines.

Specific regulatory tasks need not necessarily be handled by regulatory bodies, as certain regulatory tasks can be outsourced to specialist IT companies. More importantly, regulatory bodies must oversee the formulation and improvement of supervisory rules, perform audits of the regulatory implementation bodies, punish violations by the relevant practitioners, reduce the occurrence of risk incidents and minimize the spread and range of risk.

P2P will alter traditional financing models

At the moment, China's P2P system is similar to an Internet-based small- and micro-loans system, and it merely serves to supplement the country's financial market – it is still far from being a mover and shaker in the nation's traditional financial system. However, as Kevin Kelly indicated, innovation often occurs on the margins, the most obvious example being the impact of electronic commerce on the retail, auction and other traditional industries. When the Internet first began to penetrate traditional industries, it seemed only to have a marginal effect; however, it then slowly occupied the entire sales channel, thus forcing traditional structures to reform. It is therefore worth emphasizing that imagination is required when dealing with Internet finance. In terms of financial systems, the ideal market should be equal, free, convenient, effective and it should greatly reduce information asymmetries and transaction costs. The operating modes of Internet finance, P2P in particular, are best suited to this development trend.

The development of P2P is dependent on the rate at which information technologies develop. In the future, depending on the speed of development of technologies such as mobile Internet, third party payment, information gathering and processing technologies, and artificial intelligence, Internet finance will register rapid growth from an initially low base level.

Future P2P growth will not be limited to the "P"s, either: trading products will also register abundant expansion. P2P is no mere small loan market, but derivatives business similar to network loans, will, in the future gradually expand in the P2P market, spinning off numerous financial services similar to P2P—such as P2P-based non-standard assets, transactions between individuals and crowd loans business. By this time, the market will more closely resemble a fully efficient market, and the credit allocation function of P2P will be ever more effective. This will mean funds will be allocated in a more targeted manner, adherents will receive their loans, the segments of the finance market will be finely tuned, and the allocation of financial resources will be ultimately optimized in order to provide effective support to the real economy.

Anything But Normal

The Weird World Of Negative Interest Rates and Fiat Money Bubble

By **Jimmy C. Chang**

Money lending for interest has been around since the dawn of civilization. However, usury – lending at interest or excessive interest – has been denounced by religions and philosophers for thousands of years. Ancient Greek philosophers Plato and Aristotle viewed usury as dishonorable. Usury is forbidden in the Jewish scriptures of the Torah. Christianity criticized usury for over a thousand years, culminating in 1311 when Pope Clement V abolished all secular legislation that allowed usury. Islam's condemnation of usury traces back to Prophet Mohammed's teachings, and even today, investors who adhere to Shari'ah investment guidelines would not buy stocks of banks or highly-leveraged companies.

How times have changed. Today, usury is no longer a problem for many in much of the developed world as central banks have been flooding the system with fiat money and interest rates have plunged. Modern central banking has even ushered in what was unfathomable for millenniums -- an era of negative interest rates. At the time of this writing, more than $3 trillion of government bonds globally have been bid up to yield negative nominal interest rates. German bunds with maturities up to 5 years have negative yields, and Swiss bonds have negative yields all the way up to a 10 year maturity! Lenders are now paying these governments for the privilege of lending them money. It seems to defy logic.

To be precise, central banks' negative interest rates are applied to deposits rather than lending rates. The Swiss National Bank (SNB) was the first to experiment with negative interest rates on foreign accounts in the 1970s to deter capital inflow. Sweden's Riksbank reduced its deposit rate to commercial banks to -0.25 percent in July 2009 in an effort to drive banks to lend more money rather than hold more reserves. Denmark's

> For investors and policymakers with a long-term planning horizon, the daunting question is how the monetary base bubble can be deflated without incurring collateral damages in the years to come. The road to normalization is going to be a long and bumpy ride.

central bank followed this move in July 2012 to stem the inflow of hot money, as it sought to maintain Danish krone's longstanding peg to the euro. The real game changer came in June 2014, when the European Central Bank (ECB), a major central bank covering 19 countries, cut its deposit rate to -0.1 percent (it is now -0.2 percent) in an effort to stimulate bank lending and fight deflation. We suspect it is just a matter of time before some European banks start offering variable rate loans at negative interest rates to gain market share.

As for the market's willingness to lend to governments at negative interest rates, we believe it reflects a desperate flight to safety (losing a little is better than losing a lot elsewhere), speculation on currency appreciation (negative yields would be more than offset by potential currency appreciation), or simply the greater fool theory – someone else is expected to be willing to pay even higher prices down the road. It is also a manifestation of the growing concern over deflation, which is exacerbated by the collapse in crude oil prices.

Draghi's victory and Swiss mayhem

While excessive money printing has historically led to rampant inflation, QE in the 21st century has yet to ignite much upward pricing pressure, as both the monetary transmission mechanism (i.e., the banking system) and business animal spirits have been slow to heal. With the balance sheets of the Federal Reserve, the Bank of England and the Bank of Japan having expanded dramatically, it was time for the ECB to play catch-up. ECB President Mario Draghi, being the consummate market facilitator, did not disappoint investors. He overcame Bundesbank's opposition and unveiled a QE program – €60 billion of assets to be bought each month through at least September 2016 – that exceeded market expectations.

While some may be skeptical that this €1.1 trillion QE program will be effective in jump-starting growth in the Eurozone, one should not underestimate its portfolio balancing effect. Unlike the U.S., where banks put much of the cash from QE back at the Fed as excess reserves to earn a 0.25 percent interest, the ECB has a negative 0.2 percent deposit rate on bank reserves. To avoid paying this 0.2% penalty on cash received from selling bonds to the ECB, banks will have to either lend it out or find other investments – bonds of lower credit, stocks, etc. With loan demand remaining rather subdued, European banks are likely to channel much of the monthly QE cash infusion into financial assets. All else being equal, we believe this steady QE cash injection should lift asset prices.

While the ECB's expanded QE has so far satiated the market's thirst for more liquidity, the SNB pulled the rug out from under currency speculators by removing the Swiss franc's peg to the euro a week before the ECB's QE announcement. That unexpected de-pegging in mid-January triggered seismic moves in the currency market as the franc at one point surged 30 percent against the euro in the immediate aftermath of the policy announcement. Several hedge funds and brokerage firms went under as a result.

It is understandable why the SNB finally gave up on the currency peg – it had become too costly to keep on buying foreign assets and selling francs, which had inflated the size of the Swiss central bank's balance sheet to over 80% of Swiss GDP. However, in a world where the new central banking orthodoxy is transparency and forward guidance, this unexpected move essentially made Swiss cheese of forward guidance's credibility. A loss of central bank credibility could make it more difficult for central planners to manipulate market behavior to their liking. Time will tell if the SNB's unexpected currency move marked the beginning of forward guidance's unraveling. It is also a reminder that in a world of competitive devaluation, systemic instability could be on the rise as currency manipulation is not cost-free.

More extend and pretend?

The status quo could be shaken up when self-styled radicals are elected to run a country. The Syriza party, which literally means the Coalition of the Radical Left, captured 36 percent of the popular vote and 149 of the 300 seats in the Greek Parliament on January 25. On the following day, with Athens shrouded under soaking rain and dazzling lightning, Syriza's 40-year old leader, Alexis Tsipras, was sworn in as the new Greek prime minister.

Symbolism matters. Mr. Tsipras showed up at the swearing-in ceremony without a tie (proletariat chic?), and turned down the customary blessing from the Greek Archbishop (anti-oligarchs?). Prime Minister Tsipras' first official act was to visit the National Resistance Memorial in the Athens suburb of Kaisariani, where 200 Greek communist resistance fighters were executed by the Nazis on May 1, 1944. It's a clear message to Germany that Greece is now serious in demanding debt relief and even reparations for

WWII. Mr. Tsipras has cited the 1953 London Debt Agreement as a precedent for debt relief – the agreement cut Germany's debt from the Treaty of Versailles by 50%, and the repayment was only due over a 30-year span when West Germany ran a trade surplus.

However, the only leverage Greece has is the threat to leave the euro, which Prime Minister Tsipras has already ruled out. As such, it is not going to be easy for Greece to gain material concessions from the "troika" of creditors – the European Commission, the ECB and the IMF – that hold €240 billion of Greek debt. Wouldn't it be ironic if Prime Minister Tsipras were to negotiate for negative interest rates on the €240 billion of debt?

Syriza's agitation and Greek voters' rejection of austerity once again highlight the structural instability of a currency union among countries with very different and perhaps incompatible characteristics. The Europhile elites can only keep the status quo for so long before disillusioned populaces force structural changes.

The aforementioned developments clearly demonstrate that, more than six years after the onset of the Great Financial Crisis, the global macro environment remains anything but normal. One after another, the erstwhile bubbles have imploded (U.S. housing, the so-called commodity super-cycle and the shale and other high-cost oil investment boom). Yet at the same time, there is a bubble brewing in the world's monetary base, as major economies, with the exception of the Eurozone until the latest QE plan announced in January, have all been busy printing money in an effort to create a wealth effect and prop up the economy.

For investors and policymakers with a long-term planning horizon, the daunting question is how this monetary base bubble can be deflated without incurring collateral damages in the years to come. The Federal Reserve will shortly attempt to start the normalization process by nudging up the Fed Funds rate that, for all intents and purposes, has been zero for years. But even this baby step is likely to be met with much market angst, and the Fed may still wind up pushing out this decision, as inflation expectations of late have been trending lower. The road to normalization is going to be a long and bumpy ride.

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Jimmy C. Chang
Chief Equity Strategist, Rockefeller & Co.

What Defines a Global University in 2015?

By **Sir Eric Thomas**

A world-class university needs to be a global university, but defining a global university can be difficult. A sound starting point consists of clear brand recognition, global research, international curriculum, international students and staff, impacting global issues, interactions with global business and attracting visitors from all over the world.

The use of the word "world class" by universities to describe themselves has almost become meaningless, debased by inappropriate over usage. This made me contemplate how to define a world-class university. Undoubtedly a world-class university needs to be a global university; if it isn't global, I find it difficult to see how it could crown itself world class. Globalization is heard everywhere and is often presented as a mixture of opportunity and threat. One of the main difficulties is that it means different things to different people and that it is difficult to get a clear definition. I prefer the definition made by Martin Carnoy:

Everything is becoming organized around a much more compressed view of space and time.

This definition allows you to take any variable economic, political, social, cultural and analyse its status in 2015 by considering how it operates now in much shorter time frames and within a much more compressed geography – everything is nearer, meaning everything goes further quicker.

In 2003 I wrote an article for the *Times Higher* in which I gave some definitions of a global university. In this article I revisit that and it is interesting how some variables are almost unchanged and others have moved on.

Almost the first thing a vice-chancellor will say when asked if they lead a global university is that must be the case as they have multiple international collaborations between academic staff. However, such collaborations are the day-to-day life of almost any university today. There will literally be tens of thousands of universities worldwide that have such international collaborations – every one of those cannot be a "global" university. So what are the extra factors that will define a "global"

Sir Eric Thomas
Vice-Chancellor, University of Bristol

university? I suggest the following:

A clear brand with international recognition

In the UK, the word brand is pejorative for some of our colleagues. However, for better or worse, if someone mentions the name of a UK university, a picture of that university immediately forms in my head. That picture may well be a memory I have of the university but it will also contain my reception of it – a mixture of knowledge, surmise and conclusions from how it presents itself. If that's not a brand then give me another word for it.

There are very few universities whose brand is known throughout the world by ordinary people and thus such holistic brand penetration cannot be the defining criteria of "global". However, the brand of your university should be easily recognized by your peer group nationally, by your national policy makers as well as by the international higher education sector. Perhaps most importantly, there should be a number of disciplines in your university that have global recognition in their peer group. When a distinguished member of the peer group is asked where the best work is being done in the discipline globally, your university should be identified.

Comprehensive excellence in research, teaching, academic staff, facilities, leadership and governance

I will discuss research, teaching and staff later. However, excellence in these three areas is not enough. A global university must provide state of the art facilities for its faculty. I would argue that it should be independent and have excellent leadership and governance. That leadership must promote the international agenda and have a vision that encompasses it.

Innovative global research

The pursuit of innovative global research is the absolutely prime characteristic and without it, a university cannot claim to be global. What is clear is that global research is not just more “connectivity”; i.e. putting people together in different ways, maximizing effective use of logistics, video seminar series and summer institutes. All these are good in themselves and may lead to new ways of thinking and collaborating but they are not “global” characteristics. The global part of this comes in the marshalling of these universities’ huge intellectual and logistical resources to address global problems and questions in new ways.

The size of the endeavor, the size and centrality of the questions and the multiplicity of partners are the crucial factors here. This means asking academic staff to think in new ways, asking them look out of the rut and see different horizons. This is not intellectually easy; most of us are much more comfortable with reductionist science. It is fiercely difficult to identify, never mind pose, the central integrating question. The “connectivity” benefits that I have described above will be an essential mechanism for identifying and posing these questions but it is essential that “connectivity” should be identified for that purpose and not just seen as a good in its own right.

An international curriculum and global distribution of education

Our students will become global citizens in a way that people of my generation would never have considered. The curricula we teach should reflect that. I don’t mean that we should be teaching internationalization as a module, more that we should be reviewing our basic curricula in all our subjects and asking whether they are structured and taught in a way which reflects the global nature of our world.

A global university will have global distribution of its educational material and programs. Up until recently, this meant investment in platforms and new forms of pedagogy that proved to be expensive and didn’t necessarily succeed. However the arrival of MOOCs (Massive Open Online Courses) and their support by established distance learning providers has changed all that. I chair the Partner Advisory Board for FutureLearn which is the company spun out of the Open University to

support MOOCs. Their impact is enormous. FutureLearn is moving towards 1 million registrations on its MOOCs. Its largest registration is over 140,000.

Not only are MOOCs giving universities the opportunity to advertise excellence but they are also, in the hands of the correct supporting company, a low risk way for a university to enter the global distributed learning sector. This will certainly be one way of modern pedagogy, so a global university should be exploring it.

International student and staff

It is inconceivable that a global university won't have a substantial number of international students from diverse backgrounds. At Bristol, 18% of our students come from overseas and if you add in EU students, that reaches nearly 30% from over 100 counties. I would argue that represents a truly global student body

A global university will have faculty from all over the world, not including returning expatriates. The free movement of labor in the EU has really helped UK universities to attract talented faculty from the European continent.

Impacting global issues and policy formulation

Academic staff of a global university will advise global institutions on policy formulation in global issues, for example advising the United Nations about solutions to global poverty or WHO about AIDS and its management in the Third World.

Close interactions with global business

Chief executives and senior managers in global businesses will naturally interact and collaborate with organizations that they consider to be punching at the same weight as they are.

Visitors

A colleague recently said that he had worked at three universities and what differentiated one from the others was the frequency and diversity of other academics from outside the UK visiting the department and the university. In other words, you have what other people in the globe want to see.

Some may agree with these definitions and others disagree but they are a starting point for discussion. As I wrote earlier, much remains unchanged over 12 years. One final thought. There are now four major global league tables. Only 49 universities are in the top 100 in all four and only 70 in three out of the four. Are those 49 or even those 70 the only truly global universities?

Going Back to Mexico:

Access to Healthcare and Income Security in Old Age

By **Emma Aguila**

For decades, Mexico has been the single greatest source of immigrants to the United States. Indeed, of the approximately 40 million foreign-born in the United States, nearly three in ten are from Mexico.

While a great deal of attention has been given to this population, there has been less attention to those who return to Mexico. Such populations are considerable. Surveys of older persons in both countries suggest that, among persons 50 or older, there are about as many immigrants in the United States who were born in Mexico as there are return migrants in Mexico who spent at least part of their lives in the United States.

Such numbers have been growing. From the late 1990s to the latter years of last decade, for example, the Pew Research Center found that the number of migrants from the United States to Mexico increased from 670,000 to 1.39 million, while the number of migrants from Mexico to the United States decreased from 2.94 million to 1.37 million.

This return migration has several implications for Mexico and the United States, particularly for older populations in these two nations that lack a bilateral agreement for the portability and totalization of social-security contributions between them. Without such an agreement, Mexican workers must contribute at least ten years to the U.S. Social Security Administration, or at least 25 years to a Mexican social-security institute (through work in the formal sector rather than the larger informal sector), to qualify for retirement benefits. Workers may not combine years of contributions to qualify.

Research we have conducted, using surveys of the populations at least 50 years of age in both countries, helps illustrate several emerging policy challenges, including those related to income security at older ages.

More than three in four return migrants are male, compared to 49 percent of immigrants remaining in the United States and 42 percent of older Mexicans who never migrated. About two in three, or more, are

> Despite the importance of migration in the work lives of many Mexicans, retirement decisions of older return migrants are not well understood. The ageing of the Mexican population will require a deeper understanding of older return migrants, how their access to health care and social-security benefits determine retirement behavior, and the importance of instituting a bilateral social-security agreement between the United States and Mexico.

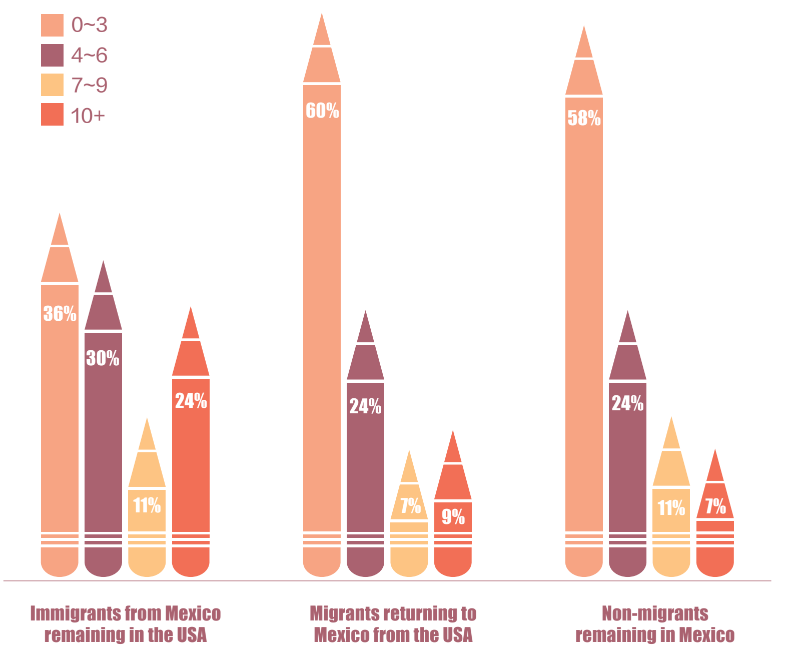
married. On average, these populations have about six children.

Return migrants have completed somewhat lower levels of education than those who remained in Mexico but clearly less than those who remained in the United States (Figure 1). Among return migrants, those who stayed longer in the United States have somewhat higher levels of education.

Return migrants who stayed in the United States longer have higher incomes than those who never left or returned earlier. At the same time, they are less likely to have ever contributed to a Mexican social-security institute.

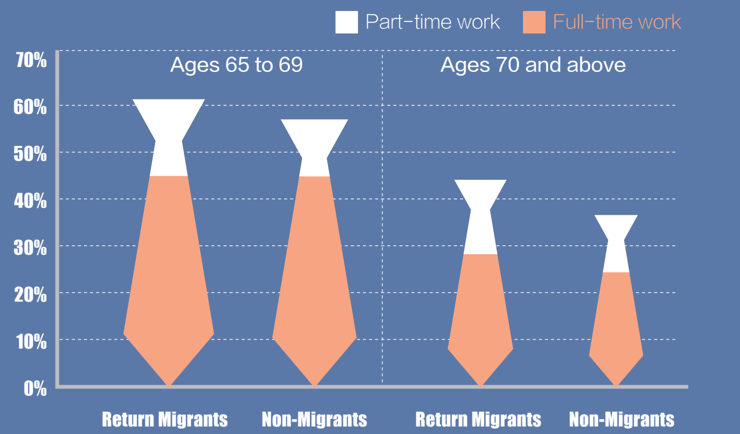
One possible reason for the higher levels of income among return migrants, particularly those who lived in the United States longer, is their continuing to work at older ages (Figure 2). Among those 65 to 69 years of age, about three in five return migrants work, nearly half working full-time. Among those at least 70 years of age, more than two in five return migrants work, with

Figure 1: Distribution of Migrant Populations (at least 50 years of age) by Years of Education Completed



Sources: *2003 Mexican Health and Aging Study*; *2004 Health and Retirement Study*

Figure 2: Work Status of Return Migrants and Non-Migrants in Mexico



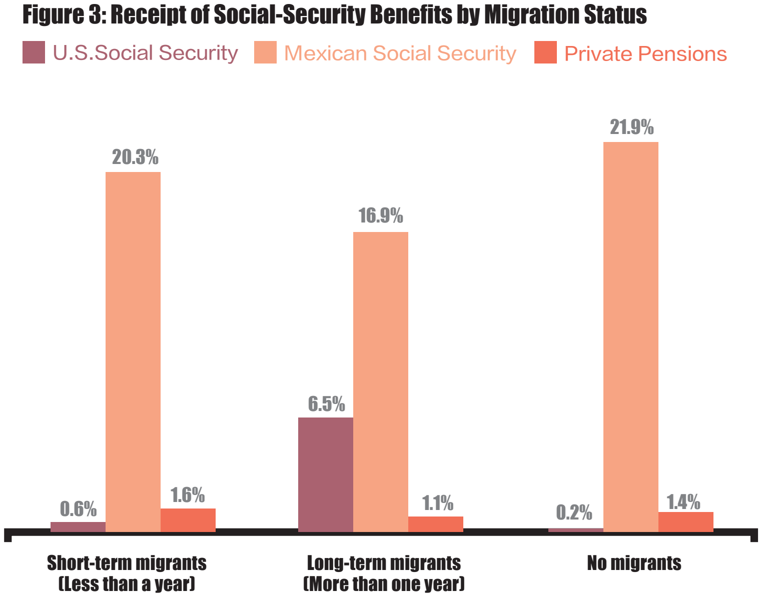
Source: *2001 Mexican Health and Aging Study*

more than one in four doing so full-time.

One possible reason for return-migrants to continue working is their lack of social-security coverage. About one in four older persons among the migrant and non-migrant populations are receiving some type of social-security benefit, whether from the U.S. Social Security Administration, a Mexican Social Security Institute, or a private pension. The source of these varies by population. Return migrants who stayed longer in the United States are most likely to receive benefits from the U.S. Social Security Administration, while those who never migrated are most likely to receive benefits from a Mexican Social Security Institute.

The difficulties that migrants have in attaining social-security benefits may influence their decisions to remain in the United States or to return to Mexico. Another possible influence is individual health needs. According to the 2003 Mexican Health and Aging Study, older Mexican immigrants remaining in the United States are less likely to have health insurance (64 percent) than return migrants (78 percent) and non-migrants (77 percent). Furthermore, and contrary to the "salmon-bias" hypothesis, which suggests that

Figure 3: Receipt of Social-Security Benefits by Migration Status



Source: *2001 Mexican Health and Aging Study*

Emma Aguila
Assistant Professor, Sol Price School of Public Policy, University of South California;
Former Senior Economist and Director, RAND Center for Latin American Social Policy

Mexicans in the United States return to Mexico due to poor health, immigrants remaining in the United States are more likely to have health insurance, and less likely to have some (but not all) health problems as well as a limitation on daily activity, than return migrants and non-migrants.

Survey data of older immigrants and return migrants can shed new light on the health and economic status of these populations. They provide a broader perspective of the migration histories than other surveys because the respondents have completed much of their working lives.

Many Mexicans do not have access to public health insurance and will not benefit from public retirement pensions. Older return migrants are even less likely to have been able to participate in either the US or Mexican social-security systems long enough to qualify for benefits. As a result, work past the age of 70 is common—and even more likely for return migrants.

Despite the importance of migration in the work lives of many Mexicans, retirement decisions of older return migrants are not well understood. The ageing of the Mexican population will require a deeper understanding of older return migrants, how their access to health care and social-security benefits determine retirement behavior, and the importance of instituting a bilateral social-security agreement between the United States and Mexico.

While the United States and Mexico already have bilateral social-agreements with several countries, they have not approved one with each other. Such an agreement, which encompassed legal Mexican workers, could give legal migrant workers the ability to receive retirement benefits comparable to those of non-migrants in Mexico—and thereby give legal workers more flexibility to return to Mexico for job or family reasons. The labor-market flexibility resulting from such an agreement could provide incentives for legal migrant workers to return home rather than staying longer in the United States in order to become eligible for U.S. social-security benefits.

Older return migrants are a vulnerable group because of the lack of pensions and health-insurance benefits. Further research can help inform policy debates on a social-security agreement between the United States and Mexico that recognizes totalizing contributions to each country's social-security system could improve the income security of return migrants.

The Mobile Technology Revolution

How Mobile Technologies Drive a Trillion-Dollar Impact

By **Julio Bezerra**

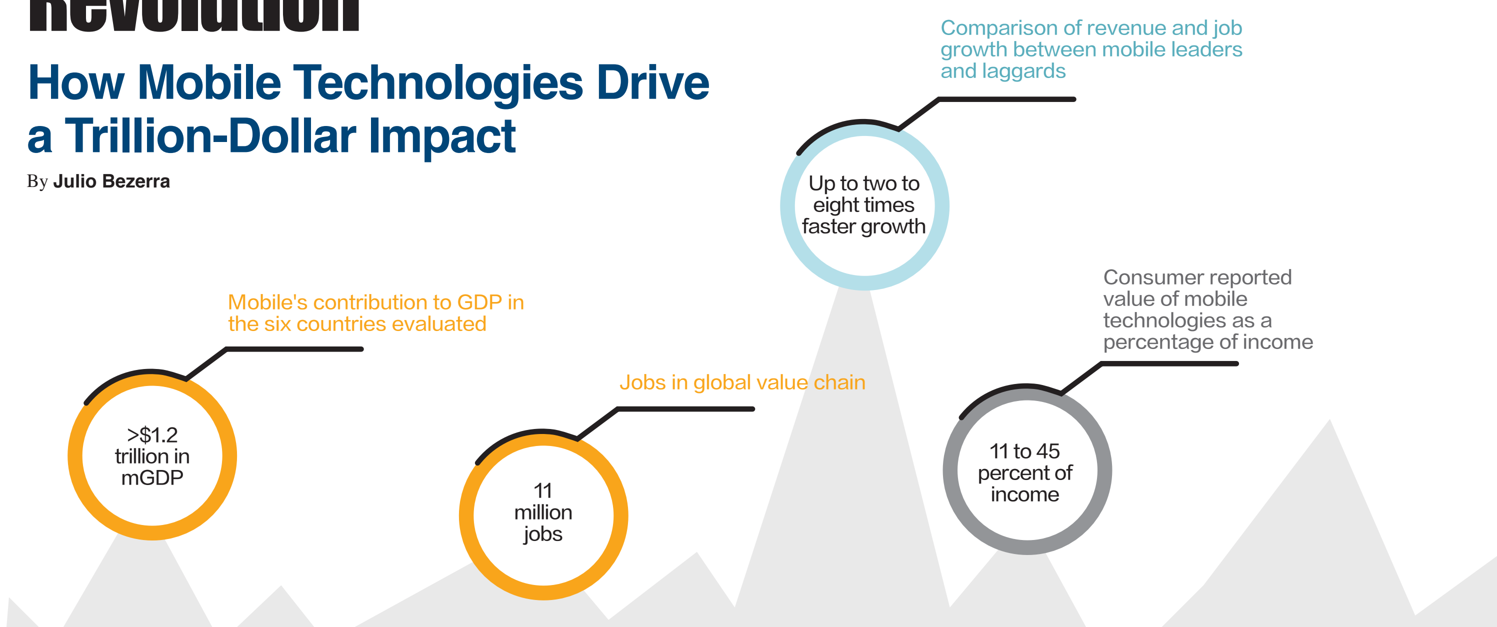


EXHIBIT 1 | Mobile Technologies Are a Growth Engine

> In less than 15 years, 3G and 4G technologies have reached 3 billion subscriptions, making mobile the most rapidly adopted consumer technology in history. Not even the industrial revolution created such a swift and radical explosion in technological innovation and economic growth worldwide. Nearly all fundamental human pursuits have been touched, if not revolutionized, by mobile.

Mobile technologies have transformed the way we live, work, learn, travel, shop and stay connected. Not even the industrial revolution created such a swift and radical explosion in technological innovation and economic growth worldwide. Nearly all fundamental human pursuits have been touched, if not revolutionized, by mobile. In less than 15 years, 3G and 4G technologies have reached 3 billion subscriptions, according to Ericsson, making mobile the most rapidly adopted consumer technology in history.

Just as the rise of the Internet in the late 1990s was marked by explosive growth and aggressive innovation, the shift toward mobile is reshaping the economic landscape once again. Mobile is not just an industry in and of itself. It is also the foundation upon which an impressive array of industries—new and old—have taken root and flourished.

By mobile, we refer to all technologies that enable

Julio Bezerra

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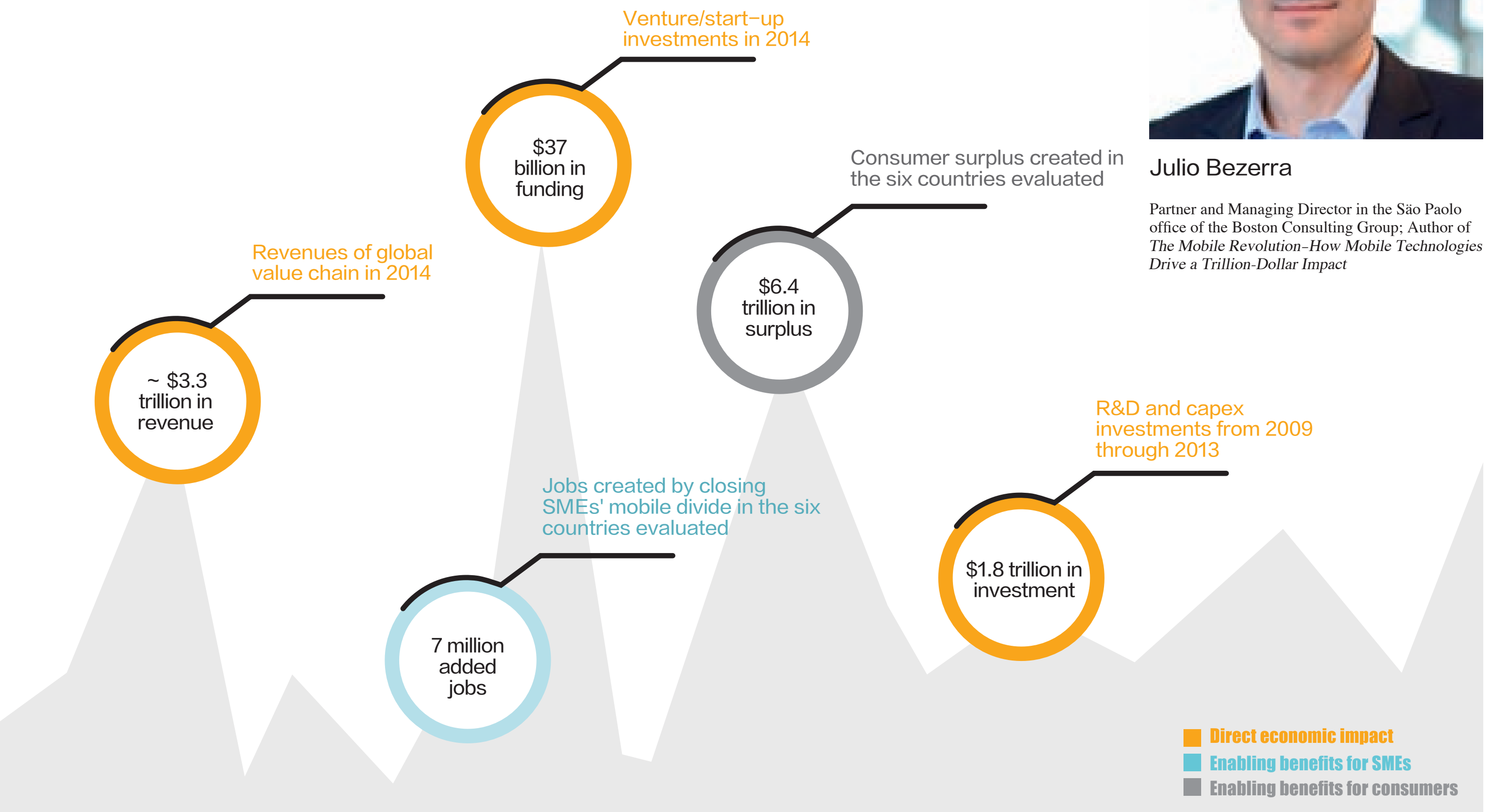


Source: BCG analysis

voice and data services via cellular connectivity, including second generation (2G), third generation (3G) and fourth generation (4G) networks. With each leap forward in the core technologies, new digital services come online with the potential to transform fields that have massive social and economic impact, such as health care, finance and education. Indeed, for consumers, small and medium-sized enterprises (SMEs), and the economy as a whole, mobile is a global success story. Revenues across the mobile industry have grown at 13 percent year on year since 2009—more than twice the rate of the global economy over the same period.

Recent advances in core mobile communications technologies have driven tangible improvements in user experience and access costs, leading to rapid adoption of devices. Consumers and businesses are discovering new ways to use mobile at an astounding rate, and mobile devices have a stickiness unlike any other consumer commodity (save the necessities of food and clothing). Users cite the profound impact that mobile has had on commerce, health and public safety, as well as communication with friends, coworkers and other social circles. The idea of leaving the house or traveling for business without a mobile phone is unthinkable for an ever- increasing number of users.

Mobile technologies are also fast becoming a growth engine for SMEs. Mobile is sparking entrepreneurship in both developed and emerging markets. It has also enabled myriad innovative business models that have helped SMEs compete on an even footing with much bigger companies (See Exhibit 1).

The mobile value chain

The transformative effect of mobile has been made possible by an enormous investment from a myriad of players within the digital space: innovators for the core communications technologies, component designers

MOVING THE INDUSTRY FROM 2G TO 3G TO 4G

Consider the innovation required to move the industry from 2G to 3G to 4G.

1. Most 2G phones support only one core technology (for example, GSM or CDMA) and can only be used for voice and text messaging. Internet connectivity is barely fast enough for casual users and insufficient as the primary Internet portal for professionals.

2. The arrival of 3G phones increased speeds dramatically and frequently supported multiple core technologies (such as WCDMA or CDMA2000) in order to enable global roaming. These next-generation devices incorporated location based services through GPS, were compatible with Wi-Fi networks and Bluetooth, enabled picture sharing, and supported low-definition streaming video (albeit slowly at first).

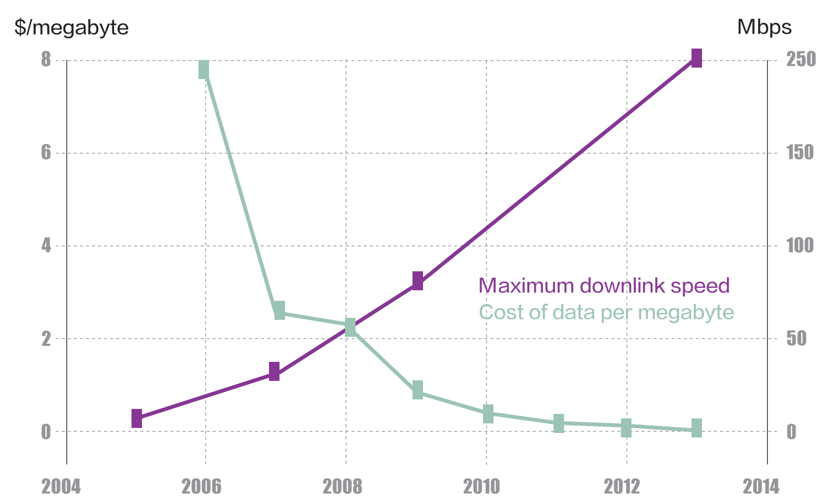
and manufacturers, original equipment manufacturers (OEMs), infrastructure suppliers, mobile network operators, content providers, mobile app developers and device retailers. The mobile value chain spans continents, binding together key players in a manner that is at once deeply collaborative and fiercely competitive. The value chain for mobile technologies is only becoming more international as countries such as China, India, and Brazil begin to take broader roles in technology innovation, device manufacturing and application development.

Each generation of mobile technologies takes years of fundamental research to develop in international standards-setting bodies, with the complexity of requirements increasing monumentally for each new generation. These enormous investments have been fueled by policies and frameworks that incentivize innovation—including strong patent protection, licensing models that provide wide access to core technologies and industry-driven standards.

The development of technology standards, in particular, has driven the mobile industry forward. Companies across the mobile value chain need a solid foundation upon which they can implement new or upgraded products and solutions, whether they are designing compatible components, rolling out expensive infrastructure, or developing new content, apps, or services.

EXHIBIT 2: Mobile Innovations Lower Costs and Improve Performance

Consumer cost of data per megabyte relative to data consumption versus data speed



Sources: Cisco Visual Networking Index; International Telecommunication Union; IE Market Research; Motorola; Deutsche Bank; Qualcomm.

Note: Data speed indicates the maximum downlink speed, not average observed speeds. The average observed speeds depend on many factors, including infrastructure, subscriber density, and device hardware and software.

3. Yet another major leap occurred from 3G to 4G technologies. 4G has enabled dramatic improvements in capacity and cost. With 4G technologies, it is common to watch full-length, high-definition videos via mobile, take video conference calls, make mobile payments via near-field communication (NFC), control devices in cars and homes via mobile, and switch seamlessly from 4G to Wi-Fi networks without interruption. These functions rely on completely new technologies that were not a part of the previous generation of mobile phones, and required more costly R&D investments than the preceding technologies.

By defining an industry standard and making it widely available through licensing, mobile players can develop infrastructure, products, and services with confidence that the core technologies are stable and universally accessible. This reduces risks associated with capital investments, so mobile companies can scale up faster, which in turn boosts consumer adoption and usage.

The standardized core technologies have delivered major advances in capacity, while network and device costs have fallen sharply (See Exhibit 2).

4G technologies have enabled a 12,000-fold improvement in capacity relative to 2G, with maximum download speeds of 250 megabits per second (Mbps), as opposed to 20 kilobits per second (Kbps) for 2G.

The cost of network infrastructure per megabyte fell 95 percent from 2G to 3G, and 67 percent from 3G to 4G.

The global average cost of mobile subscriptions relative to maximum data speed has decreased 99 percent, or about 40 percent annually, between 2005 and 2013.

Smartphones have become much more affordable with approximately 30 percent of all units sold costing less than $100, and some selling for as little as $40, according to International Data Corporation (IDC). These falling prices have encouraged usage to shift from a limited pool of luxury consumers to billions of mainstream users. This robust growth in bandwidth, combined with falling costs, has spurred extensive follow-on innovations, resulting in the tremendous variety of new entrants and applications that exist today.

Looking ahead to 5G and beyond

As we look ahead to fifth generation (5G) networks and beyond — which promise to deliver more bandwidth and higher data rates, support the Internet of Things, and dramatically increase the numbers of connected devices — we anticipate a reinvention of communication, content and services on a global scale.

While the mobile value chain is healthy and robust, the things that make it thrive must be nurtured. Many policies currently in place actively sustain the innovation and interoperability needed to stitch together the platforms and networks that make up the global telecommunications industry. As mobile continues to expand its reach, policymakers must continue to support an environment of innovation across the entire value chain.

Making the World a Better Place through Happiness

By **Christian Schmidkonz**

> Focusing on happiness has the potential to make the world a better place. Not only individuals but also companies and even states should look into the effects a focus on happiness has to offer.

It's time to put an emphasis on happiness. For too long too many people around the world put a focus on money, mainly because they believed that they'd be happy when they raked in enough of it. But how much is "enough"? And what are the consequences of this "strategy" for the society, environment or colleagues and family? It turns out that the comparatively rich countries in the world are not the ones with the happiest people. And a rich manager who spends most of his life time in conference rooms and airplanes might have a lot of money – but at the same time he might have lost his family and his friends because time is limited to 24 hours a day. Furthermore, family and friends are often the most important source for an individual's happiness.

Do people care about happiness? Yes, they do. When Pharrell Williams published his song "Happy" a movement that caught worldwide attention during last year was kicked-off: Thousands of people around the world danced to the music and uploaded the videos of their dancing to the Internet where they were watched by millions. People care about happiness when they go shopping: Coca Cola not only helps quenching thirst but at the same time makes people happier (at least according to the commercials). Books about "happiness" are bestsellers, "Laughter Clubs" can be joined not only in India where they originated and "Wellness" is nowadays a huge business. Even more and more universities and business schools these days not only teach how to sell a product or service (like Coca Cola or Wellness) but also how to become happy in one's life and spread happiness. Tal Ben-Shahar created the most popular course in Harvard's history – and it was about happiness. At the Stanford Graduate School of Business you can learn about "Designing Happiness" and at Munich Business School international students learn together with German students about the "Success Factor Happiness".

Varying definitions of happiness

In 2012, the United Nations put happiness into the spot light when it proclaimed 20 March the "International Day of Happiness". Only the year before, the UN, in the historic resolution 65/309, invited its member states to take a holistic approach to development and "to pursue the elaboration of additional measures that better capture the importance of the pursuit of happiness and well-being in development with a view to guiding their public policies". Happiness was acknowledged as not only being a fundamental but also a universal human goal. In the "World Happiness Report 2013" it is stated that there exists "now a rising worldwide demand that policy be more closely aligned with what really matters to people as they themselves characterize their lives."

Bhutan is considered a major pioneer and initiator of a happiness based approach in political decision making. It has inspired leaders of nations all over the world to start looking not only at the Gross Domestic Product (GDP) as the main indicator for the development of their countries but also to look into elements that are included in the Gross National Happiness index (GNH) as it is measured in the former kingdom in the Himalayas. The index consists of 124 subcomponents which allow the local and national governmental institutions to detect the areas where policy changes are most needed. In recent years other countries learned from Bhutan. The Office for National Statistics (ONS) of the U.K. now regularly collects data on well-being in terms of happiness, life satisfaction as well as anxiety. The EU publishes a well being index for all EU member states on its website. In Brazil, the "Felicidade Interna Bruta" became a widespread tool to be implemented in the political decision making process typically on a community level.

But what exactly is happiness (or subjective well-being as it is also called in the academic world)? The OECD defines subjective well-being as "good mental states, including all of the various evaluations, positive and negative, that people make of their lives and the affective reactions of people to their experiences." This definition condenses the results of years of discussions among scientists from different disciplines such as psychology, economics, philosophy and neuroscience and includes the following three elements the OECD suggest to measure:

- Life evaluation: a reflective assessment on a person‘s life or some specific aspect of it.
- Affect: a person‘s feelings or emotional states, typically measured with reference to a particular point in time.
- Eudaimonia: a sense of meaning and purpose in life, or good psychological functioning.

The importance of a focus on the subject of happiness in people's lives at work, at home or as citizens has been demonstrated by numerous results of recent happiness research projects. For example, happy people live healthier, get older, are more resilient to stress and ultimately are more productive and creative in their professional lives. Interestingly enough people can actively and sustainably influence their individual happiness level by themselves: Around 50% of the individual happiness level is genetically determined while only 10% is influenced by factors such as income and environment. 40% of one's own happiness level is accounted for by our daily activities and the conscious choices we make. Luckily happiness is a skill that can be trained. Recent research from the field of neuroplasticity showed that even the brain structure can be actively changed e.g. by regular mindfulness meditation that lasts for at least eight weeks.

Universal benefits of pursing happiness

Therefore, focusing on happiness has the potential to make the world a better place. Not only individuals but also companies and even states should look into the effects a focus on happiness has to offer.

States can and should increasingly study how satisfied the population is. A focus on the purely quantitative development of a country neglects qualitative components. The OECD showed in one of its publications for the case of Egypt how researching subjective well-being can be more valuable as an indicator of progress than economic indicators: While the GDP per capita grew constantly between 2005 and 2010 you can find a clear decline in the development of subjective well-being right before the “Arab Spring”.

Individuals are able to effectively change their own brain structure and thereby develop skills in happiness. Just like mindfulness teaches how to focus on the here and now, the perfect moment to start increasing ones personal level of happiness is now. Worrying about the future (that can’t be controlled anyways) and thinking about the past (that can’t be changed any more) will only delay and negatively affect the pursuit of happiness and leading a good life. The experience of performing a simple “random act of kindness” right now could be able to kindle the desire to learn more about happiness.

Techniques and practices like this, by which the individual level of happiness may be affected, are more and more often introduced into companies. For example, Google offers the program “Search Inside Yourself”, which was developed by its “Chief Happiness Officer” (CHO) and former Google engineer, Chade-Meng Tan. At the headquarters in Munich the top management level of BMW is trained in mindfulness. In a world, where working employees are exposed to a constant white noise resulting from a variety of sources during a work day it can be important to once in a while take a break and consciously experience the individual moments. Since happy managers have more creative and productive employees, topics like mindful leadership, compassion and gratitude become valuable components of everyday work in more and more companies.

Companies need to change their priorities. Selling a product for the cheapest price can’t be the only goal of a company any more. Employees ask for more than their salary but also for a work environment that lets them flourish. Customers demand more than just the physical product they paid for but also an experience that makes them happy. Zappos, the online shop that doesn’t only deliver shoes but happiness, is one of the successful California based examples for this new sales and marketing approach. By making use of the resources a society has to offer, companies have a huge responsibility in society. They therefore should develop programs that allow them to give back and support local and distant communities. The adventure travel company G Adventures and its foundation Planeterra is one of the prime examples in this respect. Selling trips to only travel enthusiasts was never enough for the founder Bruce Poon Tip. By starting Planeterra he managed to transcend the brand of the original business into something of a much bigger value to the global society. The foundation today tries to spread happiness by running projects in many different fields such as health programs, social programs, education initiatives and environmental conservation.

Overall however, a crucial basis for a happier world is the knowledge about the mechanisms of happiness and the results of happiness research. Everyone should have the chance to experience at least how mindfulness, compassion and gratitude contribute to a good life. This calls for purposeful impulses that can already be set at an early stage in school education. Education systems must allow the integration of happiness into school curricula and promote it in a pupil's life. By its happiness and not only by its grades should we judge children when they come back home from school.

Christian Schmidkonz

Professor, Munich Business School

Evaluating Rural Financial Reform

By **Li Yang**

The recent round of rural financial reform has undoubtedly been successful, with fundamental change noticeable in both the financial strength and operating conditions of the rural credit cooperative system. Furthermore, reforms including market listing and the establishment of the Financial Department of "Farming, Farmsteads and Farmers" within the Agricultural Bank of China have greatly increased its ability to support agriculture. All of these reforms have enabled greatly increased diversification in the rural financial institutions system and improved financial supply.

China is a major agricultural nation, and since antiquity, issues relating to its “3F Issues” – farming, farmsteads, and farmers – have played a crucial role in the nation’s social and economic development. Historically, no satisfactory solution has been found to the “3F” problem, and this has had an impact not only on economic development, but also on social stability, and even the nation’s very survival. The importance of the “3F” issue has only been further confirmed over the past 30 years of reform and opening-up. Be it the introduction of the household contract responsibility system at the end of the 1970s, the emergence of township enterprises in the 1980s, the explosion of new countryside initiatives at the end of the 1990s or even the latest wave of new urbanization brought about with the 18th Party Congress, the “3Fs” have been not only closely involved in each step of the reform and opening-up process, but also provide continuous impetus for further reform and opening-up initiatives. China’s economic development marks a historic miracle in the development of the global economy – today, the country has become the world’s second largest economy, and China’s “3F” policy has certainly contributed to this breathtaking development.

China’s rural economy has made considerable progress since the start of reform and opening-up. Output of major crops has recorded steady growth, rural incomes have increased rapidly and countryside living standards have improved on a continuous basis. By 2014, China had recorded a miraculous eleven consecutive increases in annual output. Despite this, however, the economic and social development of rural areas still lags somewhat behind in comparison to their urban counterparts, and there has been no basic change in the

Li Yang

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inexorable accumulation of high-quality social resources in China's metropolitan areas. The imbalance in the development of urban and rural areas has led to visible differences, and has become one of the major issues slowing China's economic and social development.

Finance is the life blood which drives the economy, and economic development, but furthermore, the "3F" issues cannot be resolved without effective support from today's financial industry. A well-run rural financial system not only provides effective financial support and payment and settlement services for rural economic and social development, but also helps players in the rural economy to avoid and weather risk. In recent years, China's financial industry has grown rapidly, and its contribution to social and economic development is everywhere to be seen. Against this background, further reform and improvements to the rural financial system that more effectively applies the rural financial system to rural social and economic development are key requirements to resolving the "3F" issues.

As part of the overall reform and opening-up process, reforms to China's rural financial system have in recent years achieved remarkable successes. The latest round of rural financial reform kicked off in 2003, with the *Circular Regarding Pilot Programs for Deepening Rural Credit Cooperatives Reform* promulgated by the State Council in June of that year. The aim of this round was to reform the rural credit cooperatives, and revolved around two core issues. Firstly, using the work unit as the legal entity to reform the property rights systems of rural credit cooperatives, clarify the relationships between property rights, improve the corporate governance system and differentiate different circumstances; all in order to define different forms of property rights. Secondly, reforming the rural credit cooperative management system by handing management of rural credit cooperatives over to local governments. Under these guiding principles for reform, large numbers of regional rural credit cooperatives have been restructured into rural commercial or rural cooperative banks, and there has been a clear improvement in the corporate governance standard of rural financial institutions.

In addition to rural credit cooperatives, further highlights of this round of rural financial reform include the emergence of new rural financial institutions such as village and township banks, loan companies and financial unions; all encouraged and promoted by Some *Opinions on Adjusting and Relaxing the Access Policies for Banking Financial Institutions in Rural Areas and Better Supporting the Construction of New Socialist Countryside* issued by the China Banking Regulatory Commission in December 2006, which adjusts and relaxes access policies for banking financial institutions in rural areas. The emergence of these new institutions effectively fills a gap in financial services in certain underdeveloped areas, and provides powerful support to the economic and social development of rural areas.

When evaluated in overall terms, this round of reform has undoubtedly been successful, with fundamental change noticeable in both the financial strength and operating conditions of rural credit cooperatives. As of the end of 2014, there were a total of 665 rural commercial banks, 89 rural cooperative banks and 1596 rural credit cooperatives, with total assets of 11.5189 trillion, 957 billion and 8.8355 trillion RMB respectively—marking a respective increase of 123, 7.8 and 2 times compared to the start of the reform initiative. The net profits after tax were 138.1 billion, 12.6 billion and 82.7 billion RMB respectively, a marked improvement in profitability. In addition, reforms including market listing and the establishment of a "3F" Financial Department within the Agricultural Bank of China have greatly increased its ability to support agriculture. At the same time, new forms of agriculture organizations have grown rapidly since 2006. As of end-2014, these included 1171 newly-started village and township banks, with total assets of 727.9 billion RMB. These reforms have enabled greatly increased diversification in the rural financial institutions system, and improved rural financial supply.

In addition to the centrally-led reforms to rural credit organizations, over the past decade, a number of local government and financial institutions have proactively sought to reform financial governance, innovate in financial products and services, and develop the rural financial environment, amongst others, gaining a wide range of experience and new methods in the process.

Admittedly, the rural financial reform process has not all been plain sailing, and there remain weaknesses in many areas. Learning from successful experience and analyzing weak areas will provide an invaluable reference for China's further rural financial reforms.

With this in mind, The Boao Review, the official journal of the Boao Forum for Asia, asked me to lead the writing of a research report on the topic of "Review of a decade of Chinese rural financial reform, and prospects for the future", which will be published during the Boao Forum for Asia Annual Conference 2015. Researchers at the Chinese Academy of Social Sciences' Institute of Finance and Banking and I immediately set in motion the necessary research work.

I believe that the report showcases two salient features:

The first is its powerful focus on fact. The report systematically reviews the development process, main achievements and remaining problems of this round of rural financial reform. Specifically, the report summarizes a number of illustrative reforms and innovative methods which emerged during this round of rural financial reform, providing the report with a strong practical relevance and reference.

The second is its solid data foundation. Thanks to the concerted efforts and cooperation provided by associated bodies, the research team performed large-scale questionnaire surveys on the effectiveness of China's rural financial reform in Hainan, Jiangsu, Shanxi and Zhejiang, and received more than 1000 completed questionnaires from agricultural businesses and farmers. On the basis of the first-hand data obtained using this questionnaire, the report provides a detailed analysis both of the effectiveness of this round of rural financial reform, and any remaining issues. This provides us with a better understanding, both in qualitative and quantitative terms, of the efficiency of the last decade of rural financial reform, as well as the future direction to be taken. This feature also differentiates this report from previous research.

This article is also the preface to the *Rural Financial Development Report 2015*, with the title provided by the editor.

文化

CULTURE

04/2015

Handicrafts Along the Mekong River Basin

By Nyainqên

Burmese Lacquer Ware and Puppets

Laos Sa Paper and Brocade

Cambodia's Sandstone Sculptures

Thai Pra Kruang

Vietnamese Wooden Carvings

Photo Story

A famous puppetry performance in the northern Myanmar city of Mandalay

Handicrafts Along the Mekong River Basin

By **Nyainqên**

On a brown, sun-baked ridge in the plateaus of Qinghai and Tibet, dazzled by the brilliant light reflected off a white pagoda, my good friend Bazan clutched a fabulous Tsa Tsa (a miniature molded clay figure), his eyes full of care and concern: "This is a handmade Tibetan treasure, I hope it will travel with you, and always bless you with peace and happiness."

In Saigon, there is a bustling night market in front of the hotel where I'm staying, and its warm, welcoming lights outline the lanky form of my local friend Hongkuang. He hands me a wooden puppet with pigtails, its hands bearing a fan and bells, and uses his halting but heartfelt English to exhort me: "Don't forget our water puppet shows, and don't forget me. I hope this little wooden master of ceremonies will bring you happiness!"

The Tibetan plateau and Saigon – two so apparently disparate locations, one in China's far west, the other on the southern tip of Vietnam, but both bound together, at opposite ends of a single river. From its source at Yushu, in Qinghai province, the Zhaqu flows to Chamdo in Tibet, where it merges with the Ongqu River to form the Lancang river. The river then heads south across China's border into Yunnan, where it becomes the Mekong River, flowing through the spectacular vistas of a number of Southeast Asian nations before completing its 4880-kilometer journey in Saigon, Vietnam, and the embrace of the open sea.

The Mekong proper is about 2,800 km in length, and flows through five countries—Myanmar, Thailand, Cambodia, Laos and Vietnam—as well as a variety of ethnic and regional cultures, which have expanded and developed with the passage of the river. My obsession with arts and crafts, driven by the care and concern lavished on me in the Qinghai-Tibet highlands, has taken me along the length of the Mekong over a period of ten years, from its source until it reaches into the sea, looking along the way for treasures, brought to life by time and a pair of human hands. Individually, they may merely reflect the artisan's skills, aesthetic and heritage, but as a whole, they embody the developments and change in the region's history, culture, art and folklore.

The finest Myanmar artistry: lacquered wooden carvings

Burmese Lacquer Ware and Puppets

Myanmar has the longest border with China of any country along the Mekong River Basin. Since the Ming Dynasty (1368-1644 CE), vast amounts of jade have entered China's Yunnan Province via Myanmar's Mandalay region. This trade route has not only fed Chinese consumers' desire for one of their favorite gemstones, but, more than a millennium ago, led to the introduction of Chinese lacquer ware into Myanmar, where it has since gained pride of place as a traditional skill.

On my book shelve stands a lacquerware elephant, brought back from Bagan a year ago; its wooden formwork is overall black, with a simple, clean thin bamboo strip and copper wire pattern restricted to its four legs and back. I also have a set of cups, formed of thin bamboo strips, which although very pliable, do not leak or scald your hands. Their black base color is covered with yellow decorative patterns, painted so finely they might have been done with ants' feet. From a simply decorative point of view, the two works are examples of Myanmar lacquer ware that appear different from each other as chalk and cheese, but from a production point of view, they are equally complex. As a first step, the formwork must be created using bamboo, leather, paper or wood, before undergoing 4-5 layers of painting and polishing. Onto this, paintings or collages are then applied, with each item taking several days or even months to complete.

Bagan itself is a sea of workshops which produce lacquer ware, and people spend vast amounts of time producing and studying lacquer ware. On my visits to some of the largest shops and backroom workshops, I soon realized that almost all of the lacquer ware is for everyday use, with few items being purely decorative art pieces. Might this perhaps be the reason that lacquer ware has not become a firm favorite among the Myanmarese: not only is a piece for everyday use, but it is also an art piece and gift, all at a very reasonable price.

In Mandalay, friends strongly recommended that I see a puppet show. The venue was a small, 50-seat theatre, with a live orchestra struggling to play traditional instruments. The performers on stage were speaking and singing in lilting tones, their hands tweaking the puppet strings to breathe life into them, making them laugh and cry, fight and dance in front of the backdrop. Once the 40-minute performance was over, the audience rose from their seats to give a long ovation – the puppets, so vividly brought to life to perform for us, were truly astounding.

After seeing the performance, everybody inevitably wants to take a puppet home. These are mostly characters from Myanmar tradition, history and fairy tales, and include everything from magical generals to mighty kings, and chubby girls to austere monks. The entire menagerie of characters on show in the theatre, with painted facial features and beaded and sequined clothes, hang from the walls. When I examine them again after the show, they seem to have come to life, full of their own personalities. The simplest have five strings to move the four limbs and the head; more complex puppets have more than ten strings, which move not only the limbs and head, but also the eyes, lower jaw, hat and even fingers!

Lao wooden carving

Myanmar wooden puppets

Laos Sa Paper and Brocade

Facing the Yunnan border port of Mohan is the Northern Laotian town of Luang Prabang, a temple-lined tourist destination, which, in addition to the charms of its many shrines, and warm and friendly locals, also offers another major attraction – a seemingly endless range of traditional handicrafts!

Wood-carved Buddha hands, beaded tapestries, hand-stitched fabrics, silken scarves, paper lanterns ... But my favorite by far is Laotian paper art and brocade. These two crafts originally came from China, but their creativity comes from their integration into the local culture, making them a source of pride all on their own.

The raw material for hand-made paper is the bark of the Kadam tree (also known as the paper mulberry) commonly found in tropical regions. The bark is soaked, boiled, pulped, formed into paper and then dried. This process is no different from the handmade paper production method still in use in China today. However, the Laotians have developed the decorative features of this paper to a fine art. They pick a variety of fresh flowers which bloom year-round in tropical regions, pluck off their colorful petals, and sprinkle these freely into the paper pulp; mix a few leaves or small flowers; once dried, this becomes Sa paper. Sa paper pulp is thick and tough, yet bright and translucent. The Laotians use it for packaging, to make lampshades, curtains, notebooks, and all kinds of other paper handicrafts. When held up to the sun, the contours and stunning colors of the petals and leaves become apparent, filling you with a sense of beauty.

My first encounter with Laotian brocade was in a boutique at the hotel where I was staying in the capital, Vientiane. A brocade with a deep red hue, approximately 50 centimeters in width and 3 meters in length hung by the entrance. It portrayed the many legends of a Laotian tribe. But this brocade was not painted, or embroidered, but woven! Weaving is entirely reliant on the regular action of the loom; regular geometric patterns and blocks of colors are relatively easy to achieve, but irregular patterns require painstaking care and time to conceive and bring to fruition. And lest we forget, this piece was a major biographical record incorporating many hundreds of people, animals, objects and scenes! Think of the countless shuttle spools, each with their different colored threads, which must be threaded through to the base thread in exactly the right place. The thought of the slow progress which went into creating this piece was enough to make me break out in a cold sweat. Sadly, the asking price was one which I could not afford.

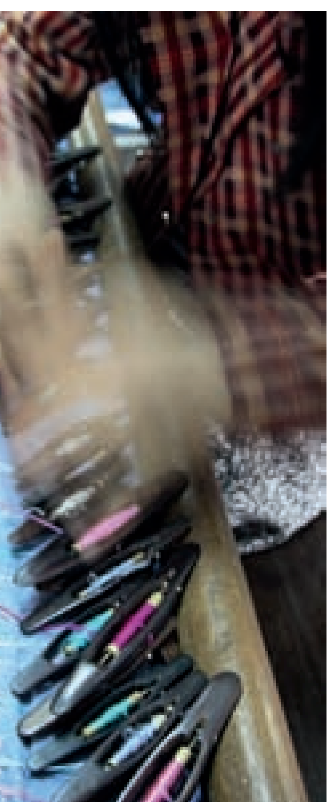
I later visited a textile village, where the prices were much more reasonable, and I joyously snapped up four cotton scarves, six large shawls and two pictures, all of them brocaded in stunning colors.

Lao wooden carving

Brocade

Lanterns made from Lao Sa paper

A child appreciates her mother's brocade in a well-known northern Lao weaving village.



Lao brocade

Lao paper umbrellas

In a Lao weaving village, stalls selling brocade are everywhere.

A Laotian wood carver uses a pre-prepared template to carve a pattern onto the wood piece.

Cambodia's Sandstone Sculptures

Dancing devatas in a bas-relief at Angkor Wat, Cambodia

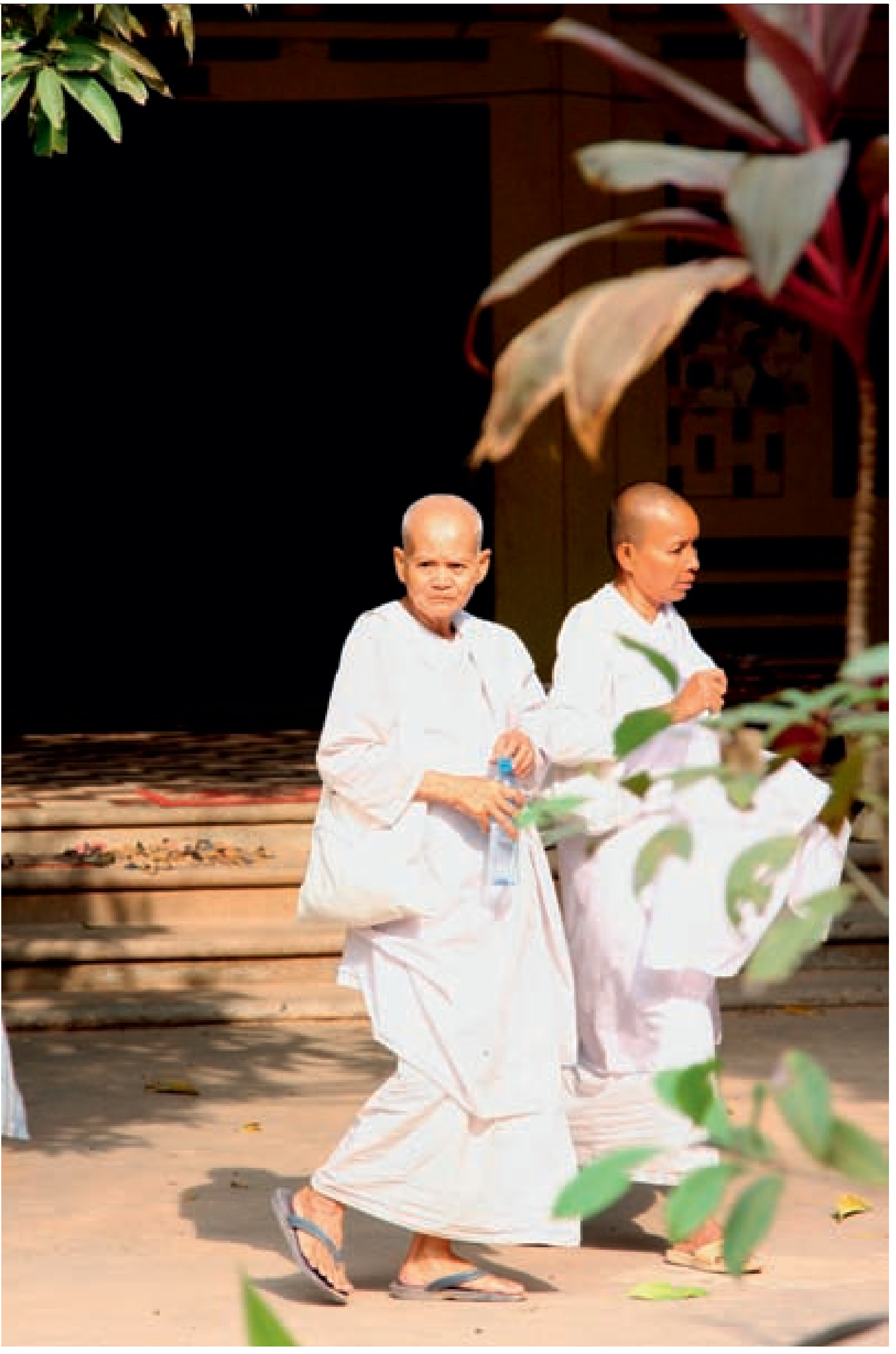
It is possible to enter Cambodia directly from Laos. I took an overnight coach and ferry before transferring to a minibus which took me into Cambodia, and then hired a car to cover the length and breadth of the country. On this journey there were three groups of women who left indelible marks on my mind the girls with their heavy make-up and dancing figures, the elderly nuns, dressed all in white as they walked through temples, and the ethereal crowned, shapely bodied devatas which inhabit the sculptures at Angkor Wat.

Young dancers decorate themselves with colors of every hue over their bodies; nuns display their renunciation of the everyday world with their simple white robes; and the devatas, transparent, shapely yet without color, attach themselves to stone, wood, a flower or a leaf, and take on their color. Of Cambodia's handicrafts, the most common are stone sculptures and wood carvings of Aditi. Since ancient times, local craftsmen have specialized in stone sculptures, and bas relief in particular; the structures of the Angkor Wat complex are a superb example of their work.

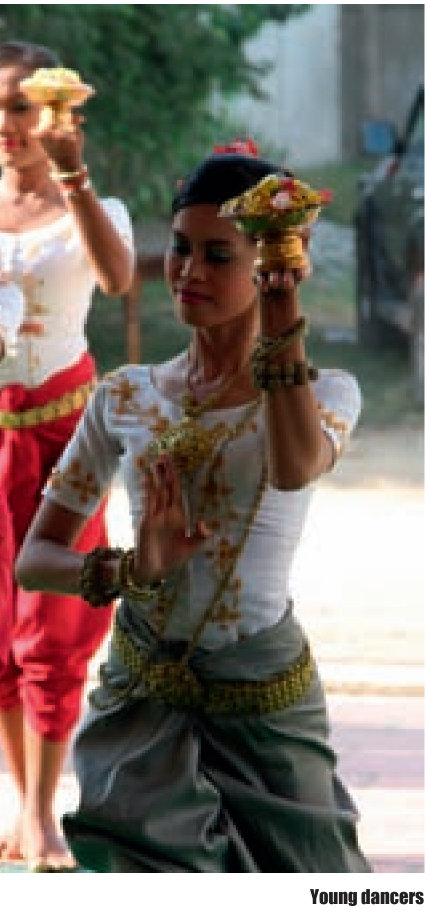
The material for these sculptures is a grey sandstone particular to the region, characterized by its soft texture, low density, light weight, and by the ease with which it can be carved and transported. Its main disadvantage is its coarse grain, which makes it unsuitable for working with fine tools, which are easily worn down. This is the reason why none of the devatas that we encounter at Angkor Wat are fine-limbed. Over the years, their features have become worn away, making them gorgeously soft and attractive. I looked in detail at the traces of their facial features, crowns, robes and neck ornaments, and regretted the fact that time, as it wore away their detail, has also worn away the skills of their master craftsmen leaving only an empty space in your imagination.

This empty space was only filled when I reached the Banteay Srei. The sandstone of this temple is red in color, and is only used within this small area. It has a harder texture than its grey counterpart and this allowed me to glimpse the apotheosis of Cambodian craftsmanship in the building's bas relief, high-relief and hollow carved pieces.

Their softly sensual beauty embodying the aesthetic orientation of the master craftsmen, albeit scarred by time. They come as close as possible to resembling Aditi which their creators would have seen at Angkor Wat. Of course, they are also the focus of tourists , and stalls all around sell loads of the sandstone bas-relief pieces which I had bought at the handicraft shop: Buddha, dancing apsaras, the protector deities of Buddhist law of the Ramayana, miniatures of the five pagodas of Angkor Wat..The craftsmen stack them outdoors, exposing them to the sun and rain, and only once they have accumulated sufficient natural damage are they taken to market, and placed on sale.



Two elderly nuns dressed all in white as they walked through the temple.



Young dancers

The Banteay Srei in the Angkor Wat complex. It exquisitely carved stone pieces are often referred to as the pinnacle of the Cambodian stone carving art.

Cambodia's omnipresent devatas

Tiny ancient Pra Kruang made of clay or ceramic

Thai Pra Kruang

Buddhas in a Thai temple

Thailand faces the sea to the Southeast, and is bordered by Myanmar, Cambodia and Laos. A member of a group once known as the Asian Dragons, the country is world-famous for its tourism. Thanks to effective economic assistance and the support of its royal family, the development of the nation's handicrafts is second to none along the Mekong River Basin. Thailand is well known for its colorful silk products, exquisite lacquer ware, hand-painted paper umbrellas, wood crafts, embossed silver, bamboo, rattan and even its high-quality porcelain, wood carvings, embroidering or jewelry.

Maybe it is because they are so compelling, so unique, that I find that I cannot do them justice in words. I mulled it over, and decided to write about an exquisite piece of craftsmanship which is rarely found in night markets and handicraft markets, but which nevertheless best conveys the Thai spiritual realm – the Pra Kruang.

Thai brocade

Pra Kruang are small Buddha statues which are used to ward off misfortune, and are considered talismans, worthy of prayer and worship. They are an object of religious devotion very similar indeed to the Tsa Tsa which Bazan gave me in Tibet. The main religion in the nations of the Mekong River Basin is Buddhism. Except for Vietnam, Hinayana Buddhism is the norm, while the Thevarada branch prevails on the Tibetan plateau.

Their religious meaning aside, I would like to mention their craftsmanship. Although Pra Kruang are produced in molds, the crafting of these molds

A craftsman working on the metal mold used to press the Pra Kruang. Pras Kruang mold carvings are one of the most delicate and artistic of Thai handicrafts.

Thai Pra Kruang

is one of Thai handicrafts' best honed skills. As small as 1 centimeter or as large as 15 centimeters in size, they are all made with hair-breadth precision.

Thailand is a nation with a complex history and an extensive mix of ethnic groups, and as a result very inclusive; although more than 90% of the population is Buddhist, Brahmanism, Taoism, Islam, Christianity are all accepted in Thailand, and a number of local magical arts still survive. This means that every day, customers ask for different combinations of materials, images and mantras; over a forty-year period, a craftsman's guild produces hundreds of thousands of such combinations.

A wide variety of materials are used to produce Pra Kruang – mud, ash from burnt scriptures, herbs, ash, pollen, fiberglass, monks' ashes, sacred relics, shell, rubber, gold and silver, mantra tubes (a kind of metal tube on which a mantra is written), or even ground-down precious ancient Pra Kruang. Over the last 20 years, a large number of metallic Pra Kruang have appeared, and these now make up around half of the total. Most are made of gold, silver, copper, five-metal alloys, nine-metal alloys or mineral ore alloys.

At the guild, I saw an absolute beauty – a copper four-faced Buddha no more than a centimeter tall. Its precise proportions, elegant posture, smiling face, its eight arms each bearing a different musical instrument, all made it beautiful. But its clearly legible inscriptions that even covered the base are what made it an amazing piece of handicraft!

Vietnamese Wooden Carvings

By the time the Mekong River enters Vietnamese territory, its journey towards the sea is almost at an end. As a result, Mekong River culture also seems to come to a grand conclusion here, with a culture that combines and interprets the various cultural elements the great river has nurtured on its journey from China.

Vietnam is famed for its wooden carvings, and the puppet which Hongkuang gave me is hand-carved by a master craftsman. They are more willing to spend the time and energy on high-quality wood hand-carvings of Guanyin, Lohan, Buddha, people, animals and the like. The carving style is

A water puppet show in the Vietnamese capital, Hanoi

A Vietnamese stone carver , now in his 80s has carved stone his entire life

Characters in a Vietnamese water puppet show

wild and uninhibited, but also exquisitely intricate. You can buy polished lacquer flower vases and jewelry boxes in Hanoi and Saigon crafts shops, their surfaces inlaid with shell patterns of landscapes, flora and fauna, or even people.

There is a famous city in central Vietnam called Da Nang, a major U.S. base during the Vietnam War. Further back in time, however, it also formed part of the Kingdom of Champa, and was the site of a city built in the same style as Angkor Wat, but much smaller in scale. Champa's destruction led to its assimilation into Vietnam, and only the Cham people now remain, and thrive here. Champa was mainly a Hindu nation, and the remains of its typical Indian style, mythological creatures and buildings can still be seen in places like the Da Nang Museum of Cham Sculpture.

Guided by my Vietnamese friends and Chinese students studying there, I visited the city's largest carving village, and its oldest craftsmen. Once again, there was a wonderful collision of cultures here: their work incorporated a strange diversity, blending Chinese-style vases, Buddha, dragons and phoenixes, and the typical Champa fusion of Indian and Cambodian styles into a variety of statues. The stone material is the green and yellow jades so popular in Chinese culture, as well as the common bluestone mostly used by the Champa.

Traditional Vietnamese hand-made lanterns

This is the charm of Mekong River handicrafts. I have been to these countries several times already, but I feel the urge to return there, because the masterpieces local craftsmen create are a major draw which I find hard to resist. This is because they all too clearly highlight a very simple fact: Mekong River Basin culture is a flowing, live culture, and the blended cultural scenes of the nations which lie on the banks of this mighty river blend to form a similar yet distinctive culture which spans the entire region. ■

From Old Patterns to the New Normal: An Unusual Opportunity to Invest in China

By **John Zhao**

From old patterns to the new normal: still the most attractive investment destination

The global economy is currently undergoing a period of reconstruction: old patterns are being shattered and banished forever, and new patterns must urgently be established. The path ahead is hardly clear-cut. Amidst this sea of uncertainty, however, one thing is already unmistakably clear: China will play a leading role in this new world order.

As the world's second largest economy and its fastest-growing consumer market, a transitioning China must effectively attract high-quality products, brands, resources and management to service its domestic market and consumers. Having relied on the expansion of China's home market for the last three decades, a growing number of Chinese businesses need to expand abroad. Experiences so far have found that mergers and acquisitions are the best way to expand capabilities.

Both "going out" and "attracting in" offer a historical opportunity to further integrate China into the global economy. Competing on the world stage with industry leaders is the only real way in which Chinese companies can truly develop their strengths. More crucially, it requires them to apply possible capital strengths, and enhance the innate dynamism of China's economy.

Over the last year or so, the Chinese economy has found itself facing a dual challenge. First financially, the challenge is the country's economic slowdown; high-speed growth is a thing of the past. Second, from an investment point of view, the challenge is in terms of awareness—the investment world now seems to believe that China is no longer as attractive an investment destination as it has been over the last decade.

As a China-focused buyout fund manager, Hony Capital believes that the key issue is to recognize that China's new economic normal incorporates two unprecedented changes. The first is the country's shift from being a net importer of capital to a net exporter, and the second is its transformation from being "the world's factory" to "the world's marketplace" due to its consumption upgrade and the expansion of its middle-income class. Against the background of this new normal, the real Golden Age of investment in China has only just begun. Chinese companies and capital have investment opportunities that focus on innovation, quality, branding, capital and a combination of these factors are the only truly sustainable, viable opportunity which is acceptable and applicable both domestically and internationally. We now have an opportunity to develop "the China advantage", to take "the China path", to tell "the China story", and to promote outstanding Chinese companies to excel on the world stage, while also attracting a number of prominent multinational companies to provide better service to the Chinese market.

John Zhao
CEO, Hony Capital

China's economy is undergoing unprecedented changes–from being a net importer of capital to a net exporter, and from being "the world's factory" to "the world's marketplace". Against the background of this new normal, the real Golden Age of investment in China has only just begun. Both "going out" and "attracting in" offer a historical opportunity to further integrate China into the global economy.

From "world's factory" to "world's market place"

Over the last three decades, China has benefited from high-speed economic growth brought about by globalization. It has also made a tremendous contribution to the world economy, relying on its relatively low costs and abundant resources to attract international businesses looking to produce cheap but attractive goods, thus transforming itself into "the world's factory".

Today, China is already the world's fastest growing, most attractive consumer market, and international businesses are increasingly focusing on China, not for its cheap labor, but because of its attractive market. But the speed of this shift has been so fast that over the next decade, the world as a whole – including China – will need breathing space in which to "catch up". Previously, China had busied itself with the needs of European and US consumers. Today, however, the focus is shifting to servicing domestic consumers. Shoppers on Chinese streets want not only cheap and attractive goods, but also products that incorporate leading brands, technology and performance. For example, China is a major producer of mobile telephony, but imported Apple handsets remain firm favorites. China is also a major automobile manufacturing nation, but many of the vehicles on its roads are still imported. We believe that in the future, domestic products and services as well as customized services will become the norm, and it will be some time before every player comes to this same realization.

In fact, foreign companies offering leading brands, products, technologies and services have already spotted the enormous potential of this market. Furthermore, this trend matches the new focus of Chinese economic growth.

This trend is confirmed by our own experience. In 2008, Hony helped Zoomlion, China's leader in construction machinery, to acquire a pioneer in the construction machinery industry, the Italian company CIFA. By 2010, one of the companies in our portfolio, Biosensors, had become a world-renowned manufacturer of cardiac stents. By 2014, our investments included a Hollywood film and television production company, a Silicon Valley cloud computing business, and a famous British pizza chain. All of these were connected by a common investment theme: the "going out" of Chinese capital and their development of shareholdings, leading to the introduction of high-quality foreign service and products. Chinese fund managers have enabled these foreign companies to become better Chinese companies.

Cross-border investment has always been a strategic focus for Hony. However, our definition of cross-border investment differs somewhat from that of our foreign counterparts. We seek out cross-border investment originating from China, and rely on our over 10 years experience of being a "China expert" to track the major trends in China's economic transformation, and generate continuous innovation in "going out" and "attracting in".

Pizza Express was an established British brand with a fifty-year history, the majority of its more than 500 restaurants worldwide located in the UK and its trials in China having just begun. When we struck, we had a more specific investment focus: both steadying the UK market and expanding the Chinese market, thus helping it seize the "China advantage". This investment does not only "look good" but also "taste good".

Hollywood-based STX marked the first entry by a Chinese equity investor into the heart of the US entertainment industry. Building a bridge between the two to bring together Chinese audience demand and Hollywood's artistic expertise, production leadership, and management excellence, will enable Hollywood films to tell the true "China story".

In an age when countries around the world are currently going through a period of transition, China's influence and contribution must shift to include finance, culture, social governance, and reform and transformation. As part of this, resources must be provided to capital in order to enable greater understanding between China and the rest of the world.

Using finance to give wings of innovation to industrial globalization

As China shifts from being a net capital importer to a net capital exporter, the ways in which Chinese industry integrates into the world are also undergoing change. In addition to direct "going out", investing Chinese capital in the real economy worldwide is crucial to enhancing the competitiveness and influence of the Chinese economy.

Firstly, purchasing shareholdings in leading foreign businesses enables high-quality technology, branding, management concepts, as well as international talent to service the Chinese market. This helps to build Chinese businesses which are competitive worldwide. Many Chinese companies are already listed among the "Global 500" in terms of revenue, but this is often a result of their monopolistic positions. They are very much "paper tigers", unable to compete on the world market. The assistance of capital is required to create a number of outstanding, truly competitive businesses, and provide China's economy with true strength and vitality.

Secondly, China holds large amounts of foreign exchange reserves, and many Chinese companies are also in a strong financial position. However, new paths must be opened up in order to diversify investment categories and reduce asset risk. We cannot merely rely on buying US Treasury Bonds; China's capital must be invested in the real economy worldwide, so it can benefit from global technological and scientific progress and corporate development.

The proper investment of Chinese capital in the real global economy requires policy support for the free flow of capital. Our own experience has shown the crucial importance of the Shanghai FTZ trial in enhancing the competitiveness of Chinese companies. In 2014, following the FTZ's rollout of its cross-border investment policy, Hony successfully tested its "first FTZ cross-border equity investment" with its acquisition of PPTV. We realized that the triple influence of the transformation of government functions, increased operating efficiency of Chinese companies, and their competitive efficiency in the international market place, will enable Chinese companies to take their place at the same starting line as their international counterparts.

We received a further piece of good news at the end of last year, when the State Council announced that except for those projects subject to specific regulations, 99 percent of Chinese overseas investment projects would no longer be subject to prior approval. In this new environment, the two-way free flow of capital in the field of equity investment will greatly increase the global competitiveness of Chinese capital and its real economy. Hopefully, this will help to promote outstanding Chinese companies to excel on the world stage.

Is China's Amended Trademark Law a Law with Teeth, or a Paper Tiger?

By **William M. Leahy and Stephen Kho**

> China's courts must aspire to greater consistency and transparency, when dealing with trademark squatters. Only in this way will the Amended Trademark Law engender the intended environment of judicial consistency, efficiency, and good faith, and provide legitimate trademark holders with the protections they expect.

In May 2014, the Third Revision of China's Trademark Law (the "Amended Trademark Law" or the "Law") took effect, providing foreign companies combating trademark squatters in China with potentially valuable new protections. Trademark squatting, which is the practice of filing a trademark application for another party's mark, often in a country where that party does not already hold a trademark registration, is an especially common practice in China as it is a first-to-file jurisdiction. Among other provisions, the Amended Trademark Law attempts to deter trademark squatting through the imposition of new good faith filing requirements. Several other provisions also appear to further take aim at bad faith applications.

The true value of the Amended Trademark Law will, however, only be revealed by the manner in which it is implemented. Trademark squatters in China have grown increasingly sophisticated—in fact many are current or former trademark agents—and will register numerous marks in the hopes that at least one of them will result in a trademark violation claim. In adjudicating and implementing the Amended Trademark Law, China's courts must aspire to greater consistency and transparency, particularly when dealing with squatters' multiple registrations. Only then will the law engender the intended environment of judicial consistency, efficiency, and good faith, and provide legitimate trademark holders with the protections they expect.

Trademark squatters are a problem for multinational companies in China

The structure of China's trademark system is ripe for abuse by squatters. As noted, China is a first-to-file jurisdiction for trademark registration. Moreover, its system does not require evidence of prior use or ownership when filing, leaving registration of popular foreign marks open to third parties. Finally, China requires single-class, as opposed to multi-class, trademark applications. In China, a company seeking to register its trademark must file a separate application for each class in which it wishes to protect its mark. China has forty-five different trademark classes, each of which has multiple subcategories, which means that in order for a company to be fully protected, it must file dozens of registrations. A failure to comprehensively do so can leave a company open to exploitation by an opportunistic squatter.

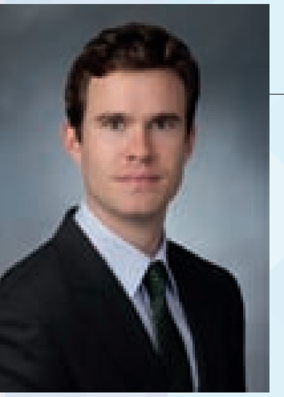
As a result of this system, some of the world's most sophisticated brands and multinational corporations—including Tesla, Pfizer, Apple, and Hermes—have been victims of Chinese trademark squatters. All of these companies have learned the same expensive lesson, as a sophisticated trademark squatter can cripple a business in China. When companies fall victim to trademark squatting, they may be prevented not only from selling their goods within China, but may also from manufacturing products in China for export elsewhere—unless the company pays the trademark squatter to buy its mark back. Moreover, a company that does not buy back its mark runs the risk of the squatter selling the mark to a counterfeiter, which would damage the value of the original mark both in China and abroad.

For these reasons, trademark squatting and the associated weaknesses in China's trademark system have been a longstanding point of concern in the U.S.-China bilateral economic relationship. Since 2007, in its report to Congress on China's compliance with WTO obligations, the Office of the U.S. Trade Representative has expressed concern about weaknesses in China's legal framework that fail to deter trademark squatters. Most recently, as an outcome of the 25th meeting of the U.S.-China Joint Commission on Commerce and Trade ("JCCT") in December 2014, the U.S. and China committed to prioritize the issue of bad faith trademark filings, and strengthen communication and exchange on the issue through existing bilateral and multilateral channels. While the JCCT commitment is a positive step, the more significant and potentially more substantive development for companies dealing with trademark squatters is the implementation of the Amended Trademark Law.

The Amended Trademark Law targets bad faith applications

One of the most significant changes within the Amended Trademark Law is the addition of a good faith filing requirement. Article 7 of the Law introduces the principle of good faith in trademark use and registration, the inclusion of which has been described by some legal commentators as a catch-all provision providing parties with a mechanism for guarding against bad faith registrations that have yet to be stopped by other measures under existing law. As we discuss below, however, whether Article 7 is interpreted and implemented by courts in such a manner remains to be seen.

The Amended Trademark Law also addresses the disturbing trend of Chinese trademark agents abusing their positions and filing bad faith marks. Foreign companies applying for trademarks in China are required under Chinese law to register their marks through a state-designated trademark agent. Increasingly, some of these trademark agents have tried to profit from their knowledge of the system by filing bad faith applications. Article 19 of the Law specifically targets this trend, stating that:



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A trademark agency shall abide by principles of good faith, abide by relevant laws and administrative regulations, and handle trademark registration and other trademark matters according to the instructions of its principals; a trademark agency shall also be obliged to keep secret any confidential information and trade or business secrets obtained through the performance of its duties.

In addition to the above two articles, the Amended Trademark Law contains other provisions that would benefit legitimate trademark holders in protecting them against squatters. For instance, under the Amended Law, applicants for trademarks now only need to submit one application for multiple classes, thus simplifying the registration process and blocking the ability of squatters to register marks in classes in which the original owner had failed to file separate applications. Moreover, in calculating damages, the Amended Law lowers the burden of proof for the trademark owner so as to allow courts to order an infringer to provide its accounting books and relevant materials necessary to calculate damages. Statutory damages have also been increased from a cap of RMB 500,000 to RMB 3,000,000, and punitive damages are now permitted for up to three times the normal damages.

The law will only be as effective as relevant administrative and judicial bodies

Without clarity and consistency in enforcement, the Amended Trademark Law will be merely a paper tiger. It will stand as a high-minded aspiration with no impact on mitigating abuses by trademark squatters. Specifically, the China Trademark Office ("CTMO"), which has initial jurisdiction over trademark disputes, the Trademark and Adjudication Board ("TRAB"), which handles appeals of CTMO decisions in trademark application and opposition matters, and relevant courts must all uniformly realize their commitment to ending bad faith trademark squatting.

Influential members of the Chinese judiciary have publicly expressed their concern with the prevalence of trademark squatting. In December 2012, judges in the Beijing Number 1 Intermediate People's Court held a press conference highlighting the findings and recommendations of a study into the cause, characteristic and judicial response to trademark squatting. Among their recommendations, the court found that it should exercise proper judicial discretion and admit evidence and accept proof with a view to prohibiting squatting. To demonstrate this point, the court subsequently delivered judgments in six cases against trademark squatters.

However, inconsistency among the administrative and judicial bodies with jurisdiction over trademark disputes has stifled such efforts thus far. Specifically, in recent months, legitimate rights holders have found themselves victorious in their claims against squatters in court, only to find that lower bodies such as the TRAB ignore these jurisprudential decisions in their determinations on other classes of the same marks filed by the same squatters. This failure on the part of the TRAB to apply the good faith standard established in Article 7 of the Amended Law to similarly registered marks being challenged in ongoing opposition proceedings is disconcerting. Only through consistency, stability and predictability in the decision-making and enforcement of trademarks by all of the Chinese adjudicatory bodies will the Amended Law prove to have real teeth.

Strategies and Policies to Attract Chinese Investment

By **Cristiano Rizzi and Wei Lin**

China is expanding its investment presence around the world in a variety of sectors. In order to attract the most functional Chinese ODI, it is necessary to understand how to pave the way for these investments with specific strategies and policies that remove obstacles and try to understand the need of Chinese investors.

Chinese Outbound Direct Investment (ODI) reached 120 billion US dollars in 2014 and is projected to reach a new record in 2015. This is a result of the new policy that features significant reductions of approval requirements and bureaucratic red tape for Chinese firms investing overseas. However, this data, as confirmed by the MOFCOM, largely ignores reverse flows from overseas subsidiaries back to their Chinese parent firms, which have surged recently due to greater freedom to move money and a tighter credit environment in China.

This new trend should be fostered if recipient economies want to grasp opportunities offered by the new wave of Chinese investment.

Paving the way for attracting more Chinese investments

Only by offering an attractive and predictable legal environment will recipients be able to prosper like their Chinese investors.

Top EU decision bodies and their Chinese counterparts are drafting a comprehensive framework to strengthen business relations. In the absence of other vehicles to improve policy and business ties, an investment agreement is the best strategy to improve access to China's market and vice versa, but also an efficient tool to ease and resolve other tensions.

President Xi Jinping's March 2014 visit to the EU's headquarters aimed to explore ways to deepen and expand China-EU bilateral economic and trade cooperation and to enrich China-EU strategic cooperation.

It is noteworthy that China's focus is to maintain the EU's status as China's largest trading partner and ensure smooth passage for its exports into the EU.

It was stressed that China also wants to maintain technical cooperation with the EU countries. This is reflected not only in their expanding cooperation in traditional fields like nuclear energy, aeronautics and astronautics, and automobiles; but also in jointly researching and developing new growth areas like intelligent manufacturing, the digital economy, and new information technology. Indeed, mobile Internet (through smart-phones) has emerged as a new business frontier for investment, considering the astonishing number of users and applications it is possible to offer to netizens.

Industries and sectors targeted by Chinese investors

Chinese ODIs in economically developed countries generally indicates a motivation to acquire technologies and brands as well as a degree of capability and competitiveness. This allows Chinese firms to move up

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the value chain gaining core technology assets and the know-how for utilizing this technology and the expertise internationally. In the US, the biggest deal in the third quarter of 2013 was Levovo's purchase of IBM's low-end server business ($2.1 billion).

According to the European Chamber of Commerce, the sectors most frequently targeted by Chinese investors are: (i) communications equipment and services, (ii) industrial machinery, and equipment and (iii) alternative and renewable energy. It seems these are the most frequently invested sectors in terms of the number of deals.

Chinese investors are also interested in human talent and research infrastructure. Many Chinese enterprises have ramped up R&D operations after acquiring European firms. Geely, for example, has significantly expanded its engineering staff in Sweden after the acquisition of Volvo. Telecommunications equipment supplier Huawei runs multiple R&D centers across Europe, and China's fourth-largest auto maker Chang'an has opened R&D offices in Italy, the U.K., Japan, and the U.S., will invest $820 million in 10 major global markets by 2020.

Chinese presence in the "service sector" in the E.U., U.S., and other markets deserves special attention. Investments in small scales like representative offices and sales operations, are growing and assuming a greater importance. In fact, companies need to build up an extensive network of operations within Europe's single market. Sometimes in expanding their business, operators face some barriers such as language and culture, which create opportunities for smaller investors and specialized agencies to offer personalized services.

Naturally, Chinese investors are variegated and the scale of the investment varies according to the capability of the category of the investor. The size of the investment reflects the different interests manifested by private individuals or enterprises (private and state owned). Although individuals generally do not dispose of hundreds of millions of euro or dollars, some nouveaux Chinese entrepreneurs have the tendency to invest huge amounts of money, especially in the real estate sector to obtain citizenship for example.

Individuals were until recently banned from taking direct investment stakes overseas, but a pilot program to allow entrepreneurs and individuals from the city of Wenzhou to engage in OFDI was launched in 2012.

Finally, private equity funds are becoming more prominent in outbound direct investment, which will open another channel for private flows. What is necessary to stress here is that the number of wealthy Chinese investors is growing fast and they are willing to invest heavily both in Europe and in the US, China's two major outbound investment recipients, but in order to attract them it is of paramount importance to understand their needs and concerns.

Another important factor to be understood is that Chinese investors are not driven by the same entrepreneurial culture existing in the EU or US. China's version of this new entrepreneurial movement involves an exciting blend of modern and traditional cultural values. The term "Confucian dynamism" is not new, and it is rooted in the DNA of the Chinese people. Chinese culture is impregnated with traditional Confucian values (and the vast majority of business people are familiar with the classics, such as The Art of War, which Chinese tend to apply in today's business environment) such as respect for seniority, close-knit family relationships and a hardworking spirit as fundamental elements despite an increase in more modern values such as innovation, independence and entrepreneurialism.

Therefore, if European or US counterparts wish to attract Chinese investors, they have to become more familiar with these values and with Chinese culture. As a result, Europe and the US have nothing to fear and everything to gain from a growing number of Chinese entrepreneurs investing in these two markets.

Knowledge, Entrepreneurs and Investors:

Driving Forces for Innovation

By **Peter Jungen**

Innovation is the key driver of economic growth and all modern development in the world. All growth in the last 250 years is based on innovation. Just 250 years ago, 85percent of the world population lived in extreme poverty, with less than 1.25 USD a day. Free-enterprise capitalism has created prosperity not just for a few, but for billions of people everywhere. Now 20percent of the world population live still in extreme property. Therefore, the millennium goals of halving the number of people who live in extreme poverty by 2015 have been overachieved.

The process of innovation involves complementary contributions from scientists, entrepreneurs, financial markets, investment communities and government.

The driving forces for innovation are knowledge, entrepreneurs and risk-taking investors.

The role of knowledge and entrepreneurs

At the heart of innovation is knowledge. Inspired talent is the engine of innovation. The highest growth rate in enrolment of tertiary education is now in Asia, with the exception of Central Asia. The region is best exemplified by China, which has not only expanded its higher education extensively, but has enlarged its research system as well. More knowledge and better understanding of the role of the human factor are critical in the innovation play.

> The process of innovation involves complementary contributions from scientists, entrepreneurs, financial markets, investment communities and government. However, in the end it must be realized that innovation does not rely on government. Innovation must be allowed to progress in an unhindered, but integrated way.

We shouldn't worry innovation gets used up. There is no empirical evidence for that. For instance the digital revolution is just at the beginning. On top of that, there are billions of innovators coming to markets, as the world will soon have 7 billion people.

Yet new knowledge alone does not create innovation. Invention and innovation are linked by entrepreneurs. Entrepreneurs push innovation. It's the use of new knowledge which allows the combination of new methods of production, creation of new products and of new services. Schumpeter called it "creative destruction"—creating the new and replacing the old structures.

Entrepreneurship is about idea creation, defining a business model, spelling out a revenue model, starting a business, developing the business, financing the business and growing the business fast.

At the heart of entrepreneurship are fast growing start-ups. The majority of start-ups fail. 70percent of start-ups don't make it past the first five years. However, fast growing start-ups are the key to economic dynamism and job creation. According to the Global Entrepreneurship Monitor, in the last couple of years China was the country with the largest contribution of employees being hired by start-ups that have been created in the previous five years.

Financing as a key

The financing of new ventures is the other key to innovation. Venture capital is indispensible.

The venture capital industry in Europe is very underdeveloped compared to the United States. For instance in 2013, venture capital in the U.S. grew to almost 30 billion US dollars, but unfortunately in Europe the figure was flat at about 3.5 billion dollars, the lowest in the last 10 years. The US has a bonanza in the first part of the year of 2014 —Silicon Valley alone has invested more than the EU. Silicon Valley basically is Santa Clara County with about 2.5 to 3 million people investing about almost 40 percent of US venture capital, i.e. 12 billion, which is about 2.5 times as much as the EU.

In Europe, many start-ups are still financed by bank loans instead of equity. We have to resolve this loan vs. equity issue because it is important for the economy where capital is invested. It is to finance innovation rather than, for example, just to finance property as there are substantial differences in the outcome.

20 percent of the revenues of US firms are from VC backed firms. VC-backed firms have created about of 11 percent all jobs in the United States. Employment and revenue growth were strongest by VC-backed

firms. The EU Commission report states that the VC industry is much smaller and younger than in the U.S., and that it has a supply shortage as well as a demand shortage at the same time, which is very precarious. The vast majority of VCs in Europe are relatively small with little experience and are not on the institutional investors' radar screen.

While the number of funds in the U.S. is increasing again, the number of funds in Europe is decreasing. The U.S. has more than 600 funds with a volume of more than 100 million US dollars. The comparable number in Europe is about 30. Germany has only 6 of that size.

In the first half of 2014, fund raising of the venture capital industry achieved the highest level since the first quarter 2001. Europe is flat or decreasing. On top of that, the percentage of public funding in the European venture capital is consistently increasing. In 2007, it was only 15 percent. It is now almost 40 percent. In Germany it is more than 50 percent.

Angel investment is even more important for financing innovation than venture capital– after bootstrapping and 3F-Money: Family, Friends and Fools. According to the "Center for Venture Research", angel investment in the U.S. in 2013 was about 25 billion dollars, invested in 70,000 start-ups by 300,000 angels, of which the majority is seed money. The venture capital industry always believes that seed capital is very important as long as they do not have to provide it and it is provided by others—in this case by angel investors.

Business angels are uncovered, under-researched, underestimated, unknown, undervalued and overtaxed. In the U.S., 60 percent to 70 percent of all technology-based start-ups will be financed by a business angel. Business angels invest entrepreneurial experiences, their networking contact and capital. Usually they are entrepreneurs who either started or ran a business. If they sold out they are cashed-out entrepreneurs.

Business angel investment is pretty risky. As most start-ups fail, most angel investments also are unsuccessful. Usually 3 or 4 out of 10 exit through write-offs, 3 or 4 are living dead, and maybe only 1 or 2 end up being successful.

If you want to have more start-ups, you need more angels. The reason is that they not only finance but also invest their entrepreneurial experience. Empirical studies show that angel-financed start-ups have a much better chance to survive. The combination of angel-funded plus VC-funded start-ups have the highest rate of survival. We see more and more professional angels, professional angel networks and so-called "super angels" who more and more take on the role of smaller venture capital funds. Where venture capital funds have left in the areas of single-digit investments, super angels and structured angels networks have come in.

Venture capital investment per capita including angel investments in the U.S. is now about 150 dollars, in Israel 250, a real start-up country in the world. In the first half of 2014 in Israel, venture capital investment per capita was about 500 dollars, and EU continued to be flat at 10 to 12 dollars. In the Eurozone it was about 5 dollars.

The effect of financing of innovation could also be studied on the top 500 largest companies in the world today in the last 30 years. 30 of top 500 were founded in the ICT Industry, mostly in the United States, only 3 in Europe. This explains the surprise of many politicians in Europe about the absolute leading role of the US economy in the ICT Industry of our time.

Europe is lagging behind in ICT R&D spending in relation to the GDP, which is about more than twice higher in the U.S. Europe is losing economic growth as it has too little ICT investment. For the first time in history, Western Europe is not part of the breakthrough technology of its time. This will have severe consequences.

There is a positive relationship between venture capital, financing of innovation and economic growth. The world total of venture capital and business angel investment is about 70 billion US dollars, of which 55 billion is invested in the U.S., 5 billion in Europe and 10 to 12 billion in Asia, with the bulk in China.

Innovation also explains the fact that, since the peak of the world economy before the 2008/2009 crisis, GDP growth is positive in the U.S., and in the U.K., up about 6.5 and 2 percent respectively. Japan and the Eurozone, however, are negative, down 1 and 2.5 percent respectively. The difference in innovation plays out in the difference of economic dynamism and therefore economic growth.

The only way out of the crisis for Europe is through innovation—the driving force for economic dynamism in the last 250 years. We also have to understand that growth does not come from the Labour Office or from legislation.

The role of government

For growth and wealth creation, governments need more entrepreneurs than the entrepreneurs need the government. Entrepreneurs now can choose between governments in the world. Governments don't have that choice.

The only way to increase the number of entrepreneurs as the crucial link between invention and innovation is that politicians create a role model. We need entrepreneurial education as a key to the knowledge economics.

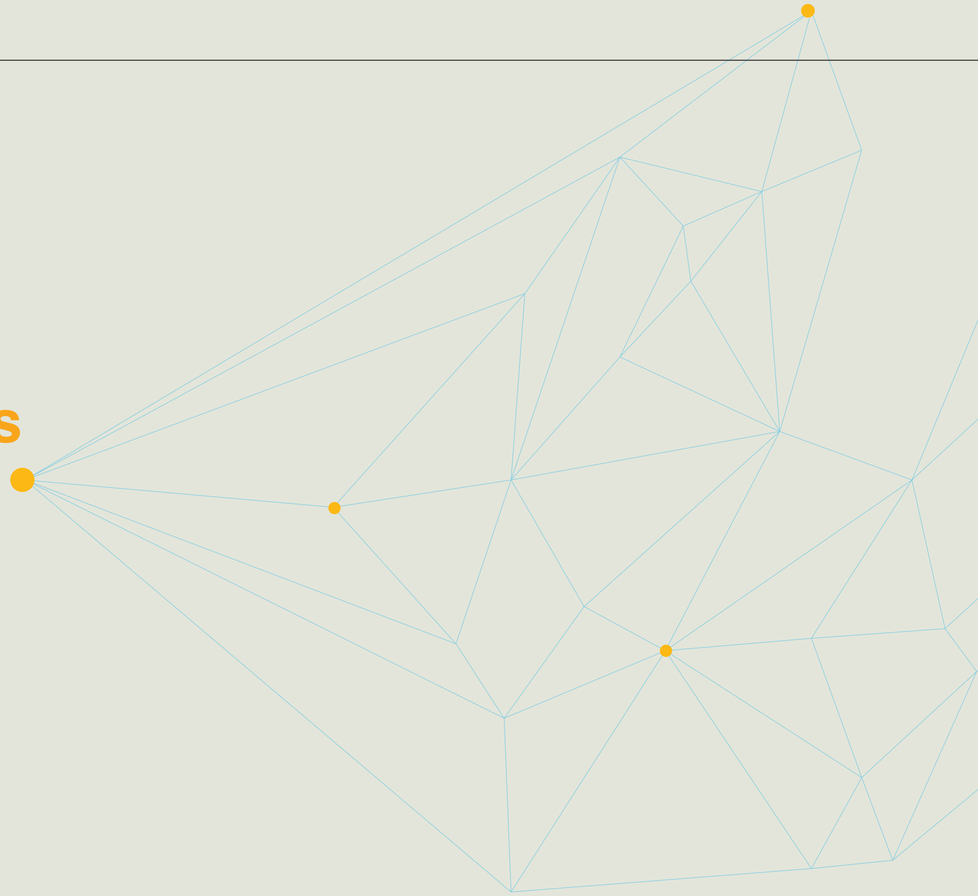
Governments should create an entrepreneurship friendly environment by having the right institutions in place like the rule of law and property rights. Small government is important in terms of a low percentage of government spending of the GDP, free-markets, protecting ownership, a favorable non-discriminatory taxation, education, financing of innovation, encouraging of start-ups and entrepreneurial role models.

We need a law to protect start-ups, not against their competitors but against politicians and their bureaucracy. If start-up entrepreneurs and small businesses were asked what is the most important decision the government can take, 90 percent plus would say: They should leave us alone!

No one knows which start-ups are going to succeed or fail. Any strategy that leads you to believe that you can pick the winners is dubious. Governments often think that they have the ability to pick the winner, but empirical studies show that rather the losers pick the government!

There is no role for the government as an entrepreneur or as a venture capitalist, but rather it should be supporting invention through R&D spending. It should also strengthen education, in particular early childhood education, secondary schools and universities.

Peter Jungen
Chairman, Peter Jungen Holding GmbH



Innovation Excellence Starts with Different Thinking

By **Martin Pattera**

Success in innovation doesn't come from understanding the customer. It comes from a deep understanding of the job the customer is trying to get done. Jobs-to-be-done thinking identifies true customer needs which leads to the creation of breakthrough products. This thinking is integrated into a guided innovation process Outcome-Driven Innovation® (ODI), which is predictable and measurable.

Executives today face challenges to get out of commodity traps and find new business opportunities. Innovation is the key, but the process must be seen from a different viewpoint.

The new viewpoint: Jobs-to-be-done-thinking

A team at Imperial College London was challenged to develop a new surgical tool to boost revenues and profitability of a medical device company. They developed the iKnife, an intelligent knife that can sniff out tumors. They did not look at the product, but rather at the job the customer hired the product to get done. Using jobs-to-be-done thinking, they asked themselves: "What job is the surgeon trying to get done when hiring surgical knives for cancer treatment?"

Customers measure the value of a solution (the product) by how many outcomes it satisfies of the job they want to get done. An outcome is measured by the time it takes to get a job done, the likelihood of an error, and the amount of resources involved. When removing cancerous tissue, a surgeon's outcome is to minimize the likelihood of leaving bits of the tumor in the patient, which can regrow afterwards. He also wants to minimize the time it takes to identify whether the cancerous tissue was fully removed.

The developers of the iKnife focused on these outcomes. They modified a surgical knife that uses heat to cut through tissue so surgeons can now analyze the smoke given off when the hot blade burns through tissue. The smoke is sucked into a hi-tech "nose" called a mass spectrometer, which detects the subtle differences between the smoke of cancerous and healthy tissues.

This information is available to the surgeon within seconds. As a result, the iKnife helps surgeons get the job done a lot better than a common surgical knife. Dr. Zoltan Takats, who invented the system at Imperial, told BBC News: "The iKnife provides a result almost instantly, allowing surgeons to carry out procedures with a level of accuracy that hasn't been possible before."

Jobs-to-be-done thinking identifies true customer needs to develop solutions and offerings like the iKnife that add value for the customer. Looking at the job-to-be-done can turn a commodity product into a great business opportunity.

> Success in innovation comes from a deep understanding of the job the customer is trying to get done. If segments are built around customer needs rather than descriptive criteria, business development can focus on delivering real customer value and the price will no longer be the main purchasing criterion.

New business opportunities in financial services

Take an example of a financial services company, to see how job-to-be-done thinking guides an innovation process resulting in cutting of unnecessary costs and inefficiencies while delivering superior customer value at the same time.

Traditional banks offer personal advisories that aim to support clients with all their financial tasks. In exchange for their services, they charge fees – monthly debit card fees, account maintenance fees, low balance fees, overdraft fees and so on. When Joshua Reich, Shamir Karkal and Alex Payne founded the banking service Simple, they looked at the whole banking process from a different viewpoint. They realized that customers do not want to do the job of making transactions, checking their bank account balance or finding out which is the right saving product for them. Instead, the job customers want to get done is to hire a financial service product to manage their finances. This viewpoint is what we call job-based thinking.

With this conceptual model in mind, and pooling their experiences from technology industries, the founders created a banking service that focuses on helping customers manage their finances in a never-before-reached grade of simplicity and comfort. Simple is not a bank. Instead, it cooperates with banks to handle all of the typical banking chores and focuses on building a better banking customer experience. It gives customers instant access to purchase data, both online and through apps, allows them to plan their budget, and set up and track their savings goals. Customers can automatically put a certain amount of funds towards their goals every month or analyze their spending and saving behavior through extensive reports.

"The real hope with these features is that we could do something that people have been trying to do, but that's been difficult to do," said Joshua Reich, founder and Chief Executive of Simple, in an interview with VentureBeat. The customers agree. Just one year after its official launch, Simple announced that it is processing more than $1 billion in transactions per year. Clearly using this product is helping customers get their banking jobs done better.

With its well-thought-out and appealing design, the service platform Simple can reduce customer service staff and save on costs like facilities and bank accounts. At the same time, it offers superior customer value by getting the customers' job of "managing finances" done better and easier than other banking providers.

Studies show that depending on the industry, up to 60% of people are willing to pay more for simpler experiences and interactions. For simpler experiences, people would pay up to 5.5% more in general insurance and up to 6% more in retail banking. Job-based thinking helps companies to identify true customer needs and develop concepts that clearly target these customer needs. This reduces additional costs and inefficiencies in the product and in its usage. Looking at the jobs-to-be-done rather than simply lowering prices can turn one product into an entirely new market.

Escaping the commodity trap in a machinery industry company

For many years, producers of machinery like wheel loaders or excavators used in the building and construction industry have been trying to optimize their products by listening to the voice of the customer. But still the price of the product is the main purchasing criteria, forcing the producers to lower the prices again and again to compete in their markets. Jobs-to-be-done thinking helps to escape the commodity trap.

Traditionally, markets in the building and construction industry are segmented by demographic criteria like company size, customer industry or application area. So did Liebherr, a producer for wheel loaders. It segments its product portfolio into four categories in line with the industry standard: building construction, underground construction, road building and landscape construction.

But after conducting a job-to-be-done market analysis and asking more than 250 wheel loader drivers about the outcomes they want to reach when using a wheel loader, Liebherr realized that there were groups of customers with similar needs in every segment category. In other words, the existing descriptive segmentation criteria failed to unite customers with similar needs!

As a consequence, Liebherr segmented the market around the identified over- and unsatisfied customer needs and identified four segments with totally different requirement profiles. The new segment structure was the starting point for several measures that had an immense effect on the company's profitability and growth.

First, Liebherr found out that the existing products already perfectly served the needs of one of the most relevant segments, but the company did not communicate this. As a consequence, Liebherr repositioned the existing wheel loaders and changed its communication message by emphasizing the outcomes that were found to be relevant for this segment.

The results of the job-to-be-done market analysis also showed that the needs of two other segments could not be optimally met by the existing product portfolio. Consequently, Liebherr developed two completely new wheel loader models by using the results of the job-to-be-done market analysis as input for the technical specification. The new wheel loaders had significant lower production cost, while at the same time offering better functionalities and higher security. They won several international innovation and design awards and their sales rates are 30% higher than the previous product line.

Job-to-be-done thinking is the vehicle to identify the true customer needs. If segments are built around customer needs rather than descriptive criteria, business development can focus on delivering real customer value and the price will no longer be the main purchasing criterion.

This article is also the preface to the *Rural Financial Development Report 2015*, with the title provided by the editor.

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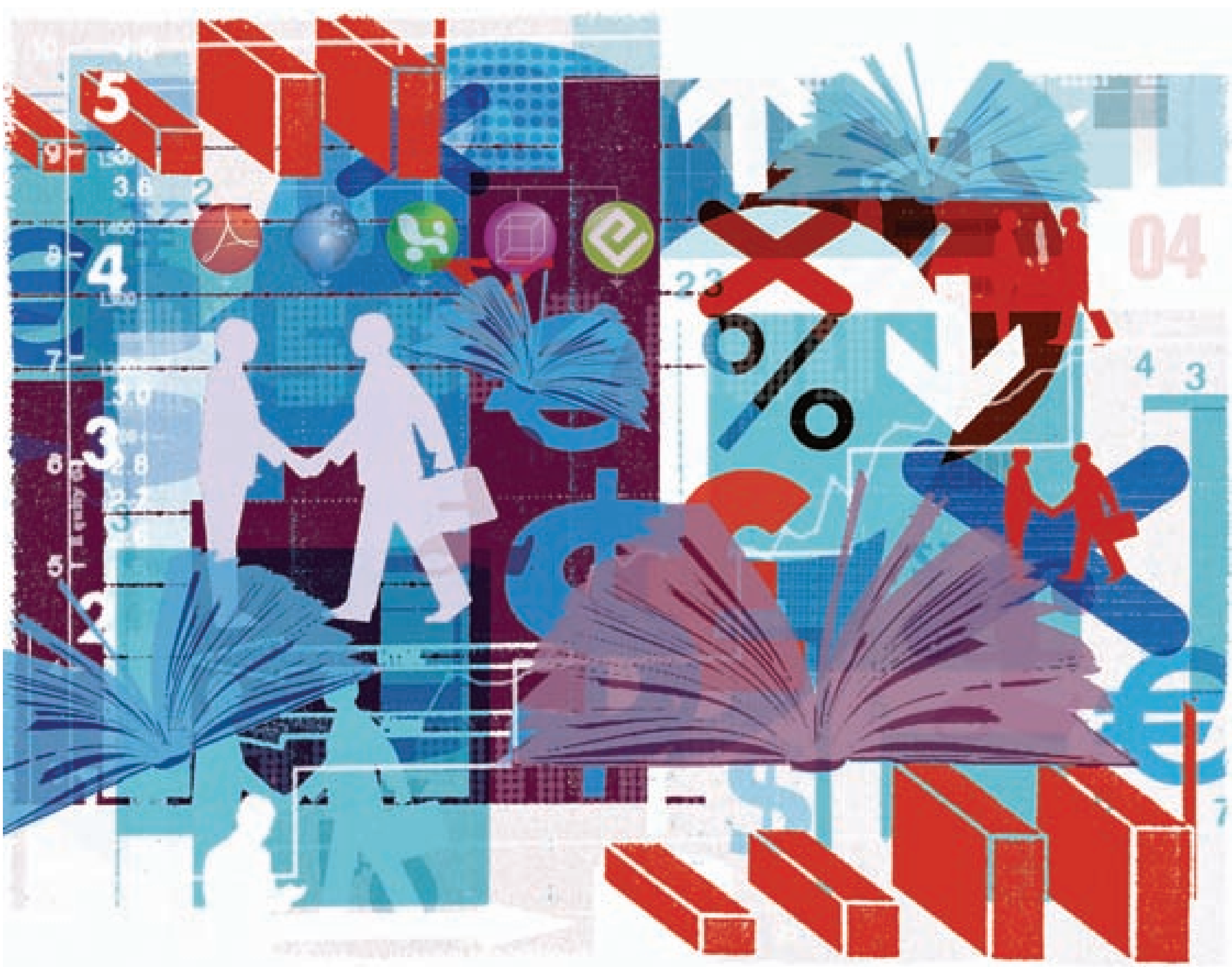

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