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*Asia: Managing Beyond Crisis*  
经济危机与亚洲：挑战和展望

Boao Forum for Asia  
**Annual Conference  
Report 2009**

博鳌亚洲论坛 2009 年年会报告

The Boao Forum for Asia Annual Conference Report 2009 is co-produced by the Boao Forum for Asia and the Deloitte China Research and Insight Center on behalf of Deloitte as the Intellectual Supporting Partner to the BFA's Annual Conference. The report is intended to provide an overview of the topics discussed but it is not a complete documentation of the conference itself. References to speakers and panelists have been drawn from the Boao Forum for Asia's recordings of the sessions.

The Boao Forum for Asia wishes to thank all the speakers and panelists at the Annual Conference 2009 for their participation and willingness to share their views, ideas and experience.

Following the turmoil of the global financial crisis and in the midst of the global economic downturn, the Boao Forum for Asia Annual Conference 2009 on 17-19 April, provided a valuable and timely opportunity for leaders of government, business and academia to meet and exchange views and ideas on the way ahead for the global economy, and the role of Asian economies.

We would like to share with you this special report which we invited Deloitte, as our Intellectual Supporting Partner to the Boao Forum for Asia's Annual Conference, to co-produce with us. It encapsulates the key topics and ideas discussed last April as more than 1,400 delegates from approximately 40 countries around the world focused on "Asia: Managing beyond crisis", our Annual Conference 2009 theme. The consensus of delegates attending the Annual Conference 2009 was that a new global financial order is inevitable.

2010 will be another pivotal year. To what extent has the global financial and economic transformation so far been expected or unexpected and with what implications for the Asian and global economies? When policy, business and thought leaders from around the world gather at Boao, Hainan Island in April 2010 for the next Annual Conference, there will be much to review, much to envision, much to discuss and an opportunity for participating delegates to form valuable networks to move the agenda forward. We hope to see you there.



**Long Yongtu**  
Secretary General  
The Boao Forum for Asia



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# Preface

The Boao Forum for Asia Annual Conference 2009 took place in a year unlike any other. While the global financial crisis remains unsettled, the challenges of 2008 and 2009 to the world's great economies make clear to all that the world is headed toward a new, global financial order. This year's Annual Conference brought together government, business, and academic leaders from many countries and many walks of life to share and discuss their viewpoints, research, strategies, and overall understanding of the global financial crisis and Asia. As the theme of this year's Annual Conference suggests, the participants maintained a clear focus on the future, on Asia beyond the crisis. There are many things unknown about the new global financial order, but it seems certain that the Asia region is already playing an increasingly important role as a force for global recovery. Addressing crisis issues in the most comprehensive terms, the Annual Conference 2009 featured a series of panel, presentations and special events to deepen understanding of the crisis and its aftermath from an Asian and a global perspective.

It was the common view that the crisis and the dramatic adjustments being made by economies around the world represent a watershed series of events. Recovery from the crisis will not lead to a restoration of the global financial order that existed prior to 2007, in terms of the practices and flows of investment and trade, market regulation, and many other threads tying together national and global economic life. So it is not a "recovery" in the sense of going back to the previous world order. The Boao Forum for Asia agenda was organised around what the organisers believe to be the major drivers of growth and forces that will shape the new order, impacting both the financial economy and the real economy, in Asia and the world at large. By deepening understanding of these major drivers and forces, stability and growth can be accelerated, can be strengthened, and can be made sustainable. The Boao Forum for Asia and the assembly of Asian and world leaders brought together under its auspices sought to contribute to progress toward stability in both a conceptual and a practical way. Many of the participants and sponsors of the Boao Forum for Asia developed special research papers and reports to increase exchange of information and insights.

As Asian and world leaders flew into Hainan for the Boao Forum for Asia, China's economic recovery was already showing signs of progress, and other Asian economies were stabilising somewhat. Ironically, the more developed nations were at a less certain stage, with many just beginning stimulus activity. Nonetheless, at the time of the meeting, there was a mixed feeling of optimism and caution about the path of recovery. From the Opening Plenary session to the closing event, participants expressed their deep commitment to sharing information and cooperating toward a strong recovery and a more stable global financial order. No one disagreed with the proposition put forth in the Opening Plenary, that most Asian countries have substantial reasons for optimism. But optimism should not obscure the challenges that lie ahead, nor should it be interpreted to mean it is time to withdraw the special responses put into effect to moderate the impact of the global crisis.



# The Annual Conference Report

Presentations and panels dealt with a range of topics, covering the future role of public markets, private investors, public funds and other aspects of financing growth. They dealt with key drivers of recovery in the real economy, including aspects of innovation generally, and sectors with the potential to nurture innovation into great economic value, for example IT, media, cleantech industries, and real estate. They dealt with the shifting roles of economies at various stages of development, recognising that so-called "emerging economies," "developed economies," and "undeveloped economies" came into the crisis with significantly different profiles. They will each find their way out of the crisis on a path appropriate to their own unique circumstances. Every country will take on new roles in the future world order, and there will be special emphasis on the role of Asian economies.

Volatility in commodity pricing and other assets, innovation, creativity, and talent, and balance points between regulation and markets were important focuses of several panels. In Asia and globally, there was emphasis on the importance of understanding of overall supply and consumption of commodities, manufactured goods, and services, financing of growth, and participation in key international economic organisations. There was emphasis on the need to evaluate the historical role of export-driven growth and understand transformations to new models for the region and each economy in it.

Discussions addressed the global financial crisis, the role of financial innovation, and the future role of national and global regulators, with discussion as well on the importance of the Doha Round of WTO negotiations. Finally, panels and presentations addressed key issues of the part to be played by different business structures, especially SMEs, and the part to be played by existing and future regulators. Regulation was an important topic, looking at both national stages and global organisations, in the pursuit of strong growth with steady, manageable

pricing of key inputs to industry and key needs of populations around the world. Leaders tied their search for financial stability to improvement in the lives, health, happiness, and security of their citizens. Throughout the many events of the Boao Forum for Asia, some of the most basic questions of development were raised again and again. What are the future roles of exports and domestic consumption? How closely regulated should Asian financial services be? How does the urgent need to address energy and climate issues relate to the urgent need to take immediate steps toward financial recovery?

This report is not a transcription or summary of the panels but a synthesis that organises and focuses the Annual Conference 2009 content, taking note of special observations and memorable quotations from eminent figures. Our objective in preparing the report is to provide a clear picture of the Annual Conference 2009's concerns and accomplishments. One section of the report includes an agenda and presentation topics for reference.



## The report is organised in five major sections

- I. The Opening Plenary - the global financial crisis.** Asian leaders' views on the challenges and prospects, opportunities and responsibilities for Asia in the current crisis situation.
- II. Drivers of economic recovery - the financial economy.** Capital flows, investors, and investment structures, public markets, private equity, public funds, domestic and international structures for investment promotion, optimisation, cooperation, and regulation.
- III. Drivers of economic recovery - the real economy.** SMEs and fast growth enterprises, sectors, and sub-sectors, large SOEs, private companies, and MNCs as sources of continuity and stability. Structuring regulatory and public support, talent management, operational excellence, best practices, and strategic investment as drivers of growth.
- IV. Innovation, creativity and the new economy.** Redefining the world's spatial economy, with focus on Asia's new role. Redefining "developing economies," "developed economies," and "undeveloped economies" and their roles in the post recovery world. Recognising the importance of harnessing creative and innovative energies of young talent, and seeking the balance between government regulations and space for innovation in media and entertainment.
- V. Stability, harmony and quality of life.** The intersection of economic growth dynamics and enhancing the quality of life for citizens of the major economies and regions: green growth, cleantech, alternative energy, secure, sufficient, and safe food and water and air supply, employment conditions and living conditions.

In preparing the report, we reviewed the presentations and Q&A sessions of over 120 speakers and panelists. The Boao Forum for Asia Annual Conference 2009 featured many different formats, including a dazzling Opening Plenary session, many panels with extensive audience Q&A, several keynote addresses at dinners and lunches, and special meetings on key topics hosted by sponsors, government leaders, and thought leaders from many walks of life. A TV featured a wide-ranging discussion on the future of Asia's competitiveness, and the broad points raised in that debate are a key part of the conclusion of this report.

Of course, no written report can capture the richness and full significance of three days of intense interactions with so many leaders of government, industry, commerce, academia, and media. In preparing the report, we hope we have captured the essence of the meetings, and we hope to succeed in communicating to you some of the many important ideas and findings of the Boao Forum for Asia Annual Conference 2009.

# The Opening Plenary - the global financial crisis

The Opening Plenary session of the Boao Forum for Asia is a unique global event. There is no other occasion where such a large group of top leaders with a strong Asia focus gathers on a podium to offer their reports, viewpoints, and insights before a global audience of other government, business, media, and academic leaders. In this regard, the Boao Forum for Asia is significantly different from global meetings like the G20 meetings, where such exchanges are done inside a veil of diplomatic privacy. This year, given the crisis situation confronting every nation, their remarks were concise and informative, providing an excellent foundation for the Boao Forum for Asia activities over the next several days.

At the very moment of opening the Annual Conference 2009, Secretary General of the Boao Forum Long Yongtu noted, "We are having this crisis at a very special moment. We are facing a very serious economic crisis, unprecedented in the history of mankind." On the podium at the Opening Plenary was Chinese Premier Wen Jiabao, flanked by a number of very senior Asian, African, Middle Eastern, and European political and business leaders.

Beginning with the opening address by Fidel Ramos, Former President of the Philippines and Chairman of the Board of the Boao Forum for Asia, all the distinguished speakers raised the issue of the global crisis and its significance for Asia. And, while there was a range of differing viewpoints on the roots of the crisis, currency and trade, and specific solutions. They, like President Ramos, all stressed two key points. This global crisis calls for global solutions and closer cooperation which has in fact happened with Asian leaders, who have been brought closer together by the crisis.

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The economic crisis confronting  
the world today is the gravest and  
most complex of the problems  
challenging our generation



Fidel Ramos  
Chairman of the Board of the Boao Forum for Asia  
Former President of the Philippines

The Opening Plenary session featured a detailed analysis and report by Chinese Premier Wen Jiabao on the global financial crisis, China's response and progress in addressing the economic downturn, challenges that face China moving forward, and the special importance of Asia in contributing to the recovery. Premier Wen expressed confidence that China's recovery was underway and on track. At the same time, he left no doubt that leaders remained cautious, and there were many important issues, imbalances, and risks that remained to be resolved. He pledged that the government of China would hold steady to the policies it put in place to address the crisis, until leaders were confident that serious danger was passed. Most importantly, Premier Wen's comments stressed the importance of cooperation and trust in resolving the crisis.

On China's progress toward recovery, Premier Wen noted that domestic consumption was showing good growth, led by a focus on residential property for all of China's people. Another important and unprecedented element of consumption growth was a surge in automobile and appliance purchases by urban and rural dwellers. China's recovery was based on a commitment to achieve equality for all citizens and to increase employment opportunities. He stressed the importance of continued focus on developing Western China, and providing affordable housing for rural and less affluent urban dwellers.

Premier Wen spoke of accelerating the development of technology, science, and modernisation of industry, to make China an engine of innovation in the decades ahead. He addressed environmental issues, including the commitment of China to promote energy conservation and environmental remediation. On boosting domestic demand, he stressed education, healthcare, and social security as major investment areas for public resources. When discussing the employment situation and job creation programmes, he stressed the need to provide employment for college graduates and migrant workers as the highest priority.

Premier Wen described the urgent stimulus package in detail, and he reported that the response of the economy to the plan was better than expected. Consumption has been growing fast, and Premier Wen noted that auto sales, home sales, and other categories have also been growing faster than expected. He noted that the stimulus plan was intended to address the short term needs of the crisis, but at the same time achieve long term goals that China has long harboured for fast modernisation and economic growth to maintain a harmonious and stable society.

He pledged China's earnest effort in resisting protectionism and supporting successful development of international organisations and international trade and investment. Premier Wen noted that the international financial crisis has turned out to be more serious and protracted than expected, and continued efforts will be needed to find a path to recovery. The impact on the real economy was far more serious than expected, and the impact on China has also been severe. He urged all to be level-headed and vigilant moving forward, so that all possible difficulties were considered, and the real economy in China and elsewhere can be protected from further deterioration.



Wen Jiabao  
Premier  
People's Republic of China

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...I have said before, confidence is more important than gold and money. Today, I want to say something more, something about hope. Hope is like a bright beacon that illuminates a direction for our countries, our enterprises, and the people of the world, and it is a lamp that will never go out.

Premier Wen concluded by noting that the economic crisis has impacted everyone. Asia has 60 percent of the world's population and one-third of global trade volume. Although there are significant national differences, all countries in Asia share the common goal of safeguarding sovereignty, accelerating growth, upholding equity and justice, and improving people's livelihood. Fighting terrorism and striving for recovery from the global crisis are among the common goals that bind Asian countries together. Asian countries should not only run their own affairs well, but they should step up cooperation to make Asia the key engine in reigniting world growth. He foresaw an increased integration of Asian economies by 2010, supported by free trade agreements and a common commitment to move beyond the US dollar as the world's only reserve and settlement currency. He spoke of an Asian marketplace of 1.9 billion consumers and the world's most efficient supply chain.

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The Chinese government decided to introduce a pilot programme to use renminbi in the settlement of cross-border trade in Shanghai and four other cities in Guangdong province. This will boost our economic cooperation and trade with neighbouring countries and regions.

In the subsequent keynotes addresses by other leaders, the key points were that Asia was the most important key to global recovery, an entirely new global financial system was needed, and currency was a critical area of reform. Speaking immediately after Premier Wen, President Nursultan Abishevich Nazarbaev of The Republic of Kazakhstan agreed with the Premier that Asia would be the key to global recovery. He expressed his opinion that a key to resolving the global crisis was for all countries to cooperate and establish a new global currency, along the lines of that discussed at the G20 based on IMF special drawing rights. As Asia could well become the global center of recovery, perhaps an "Asian Bretton Woods" was needed to stabilise a new global system. Prime Minister Tan Dung Nguyen of The Socialist Republic of Vietnam, congratulated China on leading the world with its economic recovery, and added his pledge to

Premier Wen's to fight protectionism and advance regional cooperation through free trade agreements, technical and financial cooperation. He reported on the successful measures taken by the government of Vietnam through 2008 and 2009 that have maintained growth and stability. The Prime Minister raised the importance of developed nations aiding developing nations with capital and technology, working together to put the world on a path to sustainable and environmentally-friendly growth. The Vice President of the Islamic Republic of Iran, Parvez Dawoodi, blamed the crisis on liberal economic models and a loss of business ethics in certain circles in the developed world. He said that Asian countries are the key to recovery, and they should not pay a disproportionate price for a crisis they did not cause. Asia needed to draw on other economic models moving forward, including the possibility of forming an Asian currency for trade use.

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We believe that with the Asian traditional values and macro-economic foundations strengthened out of the Asian financial crisis at the end of the last century... Asian economies will soon be able to overcome this crisis and provide new momentum for the development of the world economy.

Several leaders reviewed the specific impact on their economies of the global crisis, noting that economies at every stage of development have felt some impact. Mongolia Prime Minister Sanjaagiin Bayar reported that the export decline, growing trade deficit, and decline of the national currency had put a combination of pressure on the Mongolian economy that required urgent banking reform and cost management across the board.



Tan Dung Nguyen  
Prime Minister  
The Socialist Republic of Vietnam



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Crisis as a notion and a development has been steadily engulfing, under its troubling shadows, each and every country in the world....

Sanjaagiin Bayar  
Prime Minister  
Mongolia

Prime Minister of New Zealand, John Key, noted this was the worst of a series of recessions and crises since 1930, and he echoed Premier Wen's comment on hope, saying that to speed recovery, the most important single thing was to restore the confidence of consumers. He also stressed the imbalance between savings nations and spending nations, and pressed for cooperation to restore a more sustainable balance among nations, more open trade, and a successful completion of the Doha Round.

President Asif Ali Zardari, President of the Islamic Republic of Pakistan, echoed Premier Wen's comment on "hope" and raised the importance of a serious and coordinated fight against terrorism, in Pakistan, Afghanistan, and across the region. President Zardari said, in his opinion, the events of 9/11 cannot be separated from the global crisis impacting the world today.

Some business leaders were invited to participate in the Plenary, representing Middle Eastern, European, and Asia Pacific interests, including Saud Bin Thenayan Al-Saud, Chairman of the Royal Commission of Jubail and Yanbu, Andrew Forrest, CEO of Fortescu Metal Group, and Par Ostberg, Senior VP of Volvo Group. Business leaders emphasised the highly favourable growth conditions of Asia, especially China, and noted the high attendance levels at the Boao Forum for Asia was itself evidence of this interest and growth potential. In this Plenary, there was little divergence of opinion between government and business leaders, both sides agreeing that a high level of government intervention in Asia had prevented a bad situation from becoming even worse and that accelerated progress toward a freer trade and investment environment was in everyone's best interests. This Plenary discussion was the beginning of many panel observations on the role and timing of government intervention, which speakers saw as critical to maintaining order in economies while not stifling the innovative power of markets.

The Plenary session was among the most important of the forum, providing both broad and deep discussion of the key issues from a distinctly Asian regional perspective. Several leaders described this Boao Forum as a continuation of the G20 meetings, in terms of bringing together leaders in a spirit of openness and cooperation. Several urged a strong position against protectionism and commitment to rapid progress with the Doha Round of talks.

Leaders in their presentations made clear that the crisis had broad impact, but the impact differed significantly from country to country, depending on the nature of the economy, size of the population, and established drivers of growth.



John Key  
Prime Minister  
New Zealand

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...If you go back to 1930 for the global depression that took place then, from that time to today there have been 20 recessions... This is the worst global recession the world has had....

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## Let's remember two important key words: "confidence" and "hope"

But within this diversity of individual economic challenges, the clear consensus from the presentations of all the leaders was that Asia had both the opportunity and responsibility to work toward a higher level of cooperation, through open trade arrangements, facilitated processes to improve the efficiency of intra-regional trade, development of Asia-focused financial service infrastructure, and explorations of alternative currency arrangements for trade settlement.

In the search for solutions to the crisis, it has become clear that new and innovative economic models and financial systems will emerge, including Islamic finance, that Asia will rise with more confidence on the world stage and a bigger voice in how the global financial system will operate. It became equally clear that new institutions and regulatory approaches would have to be established to monitor activities like global treasury processes, credit instruments, and large investment flows in commodities, currencies, and other assets. Similarly, new institutions and processes would be needed to coordinate the work of central banks and key international economic organisations.

There was a clarity of purpose and attitude among the senior officials and executives who spoke in the Opening Plenary session, making a persuasive case that the emerging economies, so strongly represented on the panel, were committed to working together, open to innovation, and ready to accept a major role in the new global financial system. In his closing remarks, Secretary General Long Yongtu reminded the delegates of the two most important words that had echoed through all the presentations, "confidence" and "hope." These rich discussions in the Opening Plenary set the stage for the remainder of the 2009 Boao Forum for Asia.



Long Yongtu  
Secretary General  
Boao Forum for Asia

Premier Wen Jiabao concluded his remarks with a detailed list of strong steps to speed recovery, stabilising Asian economies, and assure Asia lead Asia forward.

1. Engage in closer economic cooperation, firmly oppose trade protectionism, and make every effort to bring to fruition the economic complementarities of Asian nations. Specific steps include expanding intra-regional trade through free trade agreements, common customs processes, and other forms of cooperation to increase trade within Asia, including the use of a common trade-settlement currency.
2. Strengthen financial cooperation and maintain regional financial stability. Potentially expand to new countries the "10+3" countries that decided last year to set up a US\$80 billion reserve pool, which was recently expanded to US\$120 billion. Develop an Asian bond market.
3. Deepen investment cooperation to drive regional growth, including transportation, power, and information infrastructure to facilitate integration of economic activity in the region. (China has established a US\$10 billion fund for such investment in the region).
4. Advance grain cooperation and promote sustainable economic growth in Asia. Coordinate policies for energy conservation, environmental protection, and advance new forms of energy, through intensified communication.
5. Enhance cooperation and collaboration in promoting world peace and Asian stability, including focus on the Middle East, Africa, and Latin America. Promote deep reform of the global financial system and strengthen the reliability of major reserve currencies. Work for comprehensive and balanced outcomes in the Doha Round of WTO negotiations.

In a meeting that included many key global leaders, there were other highlights outside the regular schedule of panels that deserve mention in this Annual Conference Report. President George W. Bush, the 43<sup>rd</sup> President of the United States, gave the keynote address at the formal banquet. After being introduced by Secretary General Long Yongtu, President Bush spoke in his characteristic friendly and informal style. He noted that the financial crisis was truly global and impacted all major economies; yet, he stressed his optimism about Asian economies and the importance of their continued strength and growth to the world. He recalled with fondness his several trips to Asia, culminating in a four day visit to China to enjoy the Beijing Olympics. President Bush thanked the Chinese people for their two generations of hospitality, reminding the audience that he first visited China when his father was the special emissary from the United States during the 1970s, as the establishment of formal diplomatic relations was being negotiated.

A luncheon for all delegates was hosted by the Hainan Provincial Government, the formal hosting province for the Boao Forum for Asia since its founding. Governor of Hainan, Luo Baoming, was the most senior representative of the provincial government at the luncheon, and Vice Governor of the province, Jiang Sixian was also in attendance. Governor Luo expressed optimism about Hainan's economic development, predicting 9 percent growth, based on the diverse resources, agricultural production, and burgeoning tourism industry.

Given the challenges facing all Asian nations and the region as a whole, this year's forum provided an opportunity for particularly important meetings on national and regional issues, including special sessions on greater China issues, climate, regional trade issues, and natural resources. In a special panel entitled "International Financial Crisis and Cross-Straits Financial Cooperation," Chen Jinhua, Honorary Chairman, China Federations of Enterprises, shared his views of evolving cross-strait financial relations, along with Frederick Chien, Senior advisor to the Cross-Strait Common Market Foundation headquartered in Taiwan. At the Hainan Provincial Government luncheon meeting, Former Japanese Prime Minister Fukuda stressed that even during an economic downturn, issues such as climate remediation must be addressed. Important consultations, both on the record and off the record, characterised the several days of meetings in Boao this year.

At the Hainan lunch, the Vice Chairman of the Board of the Boao Forum for Asia and the Former Vice Premier, Zeng Peiyan urged Asian countries to ally together to prevent their recent achievements from being lost in the fight against economic decline. As for China, the goals ahead are to upgrade economic structure, boost domestic consumption, and improve people's livelihood and welfare. Secretary General Long Yongtu in fact mentioned that the expectations for Asia's financial performance were high, not just in Asia but around the world. Ishige Hiroyuki, Vice Minister for International Affairs from Japan's Ministry of Economy, Trade and Industry, noted on a later panel that Japan's economy heavily relies on Asia, and Asia should be seen as the world centre for recovery. Everywhere was the expectation that Asia would play a major role leading the world out of the present crisis. Based on the messages of the panels, that was certainly a feeling shared by all attending.

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We hope the next round of world economic growth will be led by green recovery instead of being a simple repeat of the previous economic cycles



Zeng Peiyan  
Vice Chairman, Board of the Boao Forum for Asia  
Former Vice Premier, China

# Drivers of economic recovery – the financial system

From the Opening Plenary session to the final meetings of the Annual Conference 2009, Asian government and industry leaders reflected a critical yet sympathetic view of the financial crisis as it unfolded in the West. Certainly there were unforeseen outcomes to the policies of Western governments, either lax regulation or misguided regulations bearing on the financial services sector. Prior to the eruption of the crisis, even when early signs appeared, the various global institutions designed to promote global stability did not take urgent or effective action.

The spread of the crisis altered certain global balances in terms of negotiating leverage and influence in the direction of post-crisis reforms. Asian nations gained a platform to apply new pressures on the mature economies and they gained an opportunity to offer opinions on financial and monetary policies in the US and Europe. The expansion of the G7/8 to 20 was only one manifestation of this shift. The crisis also revealed the extent to which East and West had become dependent on each other, both parties to imbalances in the global system that had grown too big to mitigate. The long debate on whether economies in the East and the West were coupled changed to a discussion of the nature of the coupling and how stability and strength could be found in it. All of these issues were given full voice at the forum.

Most comments agreed that global organisations are in need of expansion and reform. It is clear that a higher level of global regulatory coordination is urgently needed, and a more global approach to some commercial services, like risk and credit rating, must be developed. Demands were expressed that the US Treasury protect its major creditors from a precipitous decline of the US dollar, and suggestions were made for instruments like inflation-protected sovereign debt. Also, numerous alternatives to a world with a single reserve currency were discussed, including special drawing rights, regional currencies, or other strong national currencies. There was clearly an emerging appreciation among Asian leaders that they shared a set of interests in influencing some existing practices in Western economies that have negatively impacted Asia in the crisis. Calls were clear for the establishment of new Asian institutions, perhaps an Asian Agricultural Bank that would provide strength and support to all Asian countries based on the growing economy power of Asia as a region. There was a clear sense that many Asian leaders did not believe key international economic organisations had always acted in Asia's best interests.

But looking to the West for the cause of the crisis did not eclipse the obvious challenges Asian nations face in developing their own financial systems and services. Clearly the crisis brought into focus structural issues in every Asian economy that must be addressed through future transformations, some urgent and driven by the crisis, and some more long-term and required for sustained growth and stability. Although Asia's response to the urgent crisis was in the forefront of discussions, panelists never lost sight of the need to chart new paths to new long-term growth models.

For both the immediate response and long-term transformation of Asian economic systems, three major themes linked together the discussion of the financial system. First, what was government's proper role. Second, what was industry's proper role. And finally, what are the right timings and balanced points between the government role and the industry role, especially in speeding recovery from the financial crisis, but also in developing sustainable long-term models.

From the Asia perspective of conference participants, at least one major point emerged with clarity. While cooperation on a global scale engaging all major economies was needed to recover and restructure the global financial system, in fact, the responsibilities and the responses of each region and each country should be appropriate for the specific conditions of that country. There is no model that fits everyone. Liu Erh Fei, China Chairman of Bank of America and Merrill Lynch, gave his view that, for global financial system reform, each country needs to establish the most suitable system for itself, and then strengthen international cooperation.

Further, as Lawrence Greenwood Jr., Vice-President of the Asian Development Bank noted in his opening remarks for the panel entitled "Reform the International Financial System: the Role of Emerging Markets," the G8 has been overtaken by the G20, signaling a more multi-polar process for moving forward with global financial system reform. If we review the G20 meeting, he noted, the Asian representatives played an unprecedented important role. This aspect of the future has already arrived.

Greenwood's remarks made clear that the world's attention had turned to the impact of the crisis on Asia, the emerging financial architecture in Asia, and the importance of stability in Asia to the entire world's recovery. Zhou Xiaochuan, Governor of the People's Bank of China, speaking at the same panel on reform, set forth three ways in which emerging economies were impacted by the global crisis: toxic assets, sharp decline in exports, and a loss of confidence. He echoed Premier Wen's expressed belief that the important thing for China to do was achieve its own healthy recovery, as a contribution to global recovery. Zhou also reviewed the emerging rebalance of the roles of various international key economic organisations, like the Asian Development Bank, in supporting cooperation of the participating economies. He suggested that for Asia, the ADB was both more familiar and more trusted in the region and should take over the lead from the global institutions.



Lawrence Greenwood Jr.  
Vice-President  
Asian Development Bank

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The stimulus measures taken by the Chinese government are inspiring, and it is also very challenging that China tries to transform the economic structure at the same time

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## China should first resolve its own problems, and that would be the best way to have a positive impact on the rest of the world

Zhou's focus on the importance of Asia's role was consistent with what several other senior Chinese leaders emphasised. Zeng Peiyan, speaking at the special luncheon hosted by the Hainan government on the global outlook, argued that Asian countries, especially those that are creditors to the US, had a shared interest in pressing the US to provide inflation protection as a means of preserving the creditworthiness of the US dollar. Zeng advised that inflation threat was in fact a broader problem than just the US, pointing out that inflation threats typically emerge when governments are busy solving liquidity and deflation problems. When inflation is low, or prices are even deflating because of slack demand, it is easy for governments to maintain loose credit policies too long, create excessive liquidity for stimulus, and lay the ground work for a stubborn inflation problem later. Thus unconventional and innovative fiscal and monetary policies are needed. On the subject of innovative financial measures, panel chair Greenwood praised China's success in maintaining momentum with twin initiatives, financial stimulus and economic reform.



Zhou Xiaochuan  
Governor  
People's Bank of China

Zeng, recently retired from his Vice Premier position, now chairs the newly established China Centre for International Economic Exchanges, which is taking a leading role in China's examination and consultation on the crisis. His deputy at the Centre, Zheng Xingli, a panelist for "Balancing Financial Innovation," reiterated the point, urging the US to link its government paper to the inflation rate, and he called for the establishment of two new regional banks, an Asian Agricultural Bank and an Asian Infrastructure Bank. Zheng also argued for a new international trade settlement currency to function alongside the US dollar.

Discussion of the role of stock exchanges and financial investors in Asia's recovery was the main focus on a panel hosted by Wang Boming, Chairman of the Stock Exchange Executive Council, entitled "How the Markets Can Drive Asia's Recovery." Yao Gang, Vice Chairman of the China Securities Regulatory Commission, picked up the theme on the importance of cooperation in addressing a crisis that had gripped the world. But he added that the impact on China was certain to be both limited and of short duration. Pointing to initiatives China was taking even during the crisis, Yao also announced that the Growth Enterprise Market in Shenzhen, a market intended to provide an IPO platform for growth companies, would be opening as soon as regulations were complete. This step addressed a concern that was widely discussed at the forum, the importance of directing sufficient capital to growth sectors in Asian economies, even as financial stimulation was focused on large enterprises.

Since the forum, the GEM market has indeed opened as Yao announced, and the first wave of companies approved for listing was made public. The opening of the GEM market is an important step for Chinese growth companies and potential investors in them. Listing criteria have been applied with great care to assure that a new market, opened during this period of global crisis, is credible, stable, and strongly supported by investors.

An important theme also widely dealt with at the forum related to the financial sector was the relationship between government initiatives and markets. The urgency of the crisis made massive intervention by governments essential. No one disagreed. Commentators agreed that government and new regulatory strategies were key elements in transforming economies. But one impact of the crisis was the understanding of the balance point between the forces of the free market and the oversight of regulators was shifting toward a belief that regulations had to be more robust, consistent, and comprehensive.



Second from right: Lou Jiwei, Chairman and CEO, China Investment Corporation

Generally there was a consensus that strong government action was called for, given the severity of the current crisis, but it was equally important to find the right point for governments to withdraw strong stimulation from their economies and return to a regulatory norm. Former Prime Minister Fukuda made this point clearly at the Hainan Provincial Government luncheon. Quick and strong responses from governments are necessary and effective in dealing with the global financial crisis. However, all this should be pulled back when things are getting better in order for countries to achieve sustainable growth. Economist Xu Xiaonian and others linked the proper timing of government retraction from high active stimulus activity to success in achieving a sustainable new economic model.

Among China's government initiatives in recent years was the establishment of the China Investment Corporation (CIC), a sovereign wealth fund established to diversify China's global financial investments. CIC was initially funded with US\$200 billion, and since its inception has made a number of domestic and foreign equity investments. CIC's expressed goal is to deploy a portion of China's large foreign exchange reserves in a way that improves their financial return while promoting stability in key investment sectors. CIC Chairman and CEO Lou Jiwei addressed the forum and explained the fund's interests in investing abroad. Noting in particular that some investment initiatives of CIC had not been welcomed in Europe, he also noted ironically that some of those would not have been successful anyway and lost money. Lou reported that CIC had limited investment in Europe before the crisis, but will make prudent outbound investment when opportunity rises. Since the forum, CIC has become very active on the international investment front with several major new initiatives abroad.

Lou characterised sovereign wealth funds, and his strategy for CIC, as a stabilising force in the global markets. Sovereign wealth funds arise as a result of the current global financial system, and they actually play a major role in stabilising markets by following long-term investment strategies that reduce economic and financial fluctuations. Also, countries where earnings growth is strong and savings rates are high naturally accumulate large foreign currency holdings, and it is healthy to put those funds to work in the global economy as a whole. Countries should welcome investment made by CIC and other sovereign wealth funds, not feel threatened by them, Lou put forth. While sovereign wealth funds have been in existence for many decades, the appearance of new funds like CIC, supported by the new wealth of emerging economies, has given rise to concerns about the role they will play in the strategies and governance of foreign companies in which they invest. This debate is on-going.

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... the current international currency situation requires high savings countries to accumulate substantial amounts for foreign reserves. It is very hard to say what is an appropriate Forex accumulation for a country. Perhaps something in the order of US\$200 billion would be enough. But when a crisis occurs, even US\$400 billion might not be enough.

Lou Jiwei  
Chairman and CEO  
China Investment Corporation





Kim Jong-hoon  
Minister of Trade  
Republic of Korea

On foreign currency and global reserve issues, Nouriel Roubini, Professor of Economics from the Stern School of New York University, has made several important points. Professor Roubini gained international attention as one of the few economists to predict the financial crisis. In his comments on the financial system panel, he cautioned that the US and Europe might begin a recovery next year, but energy and commodity price surges could prove a significant risk. On foreign currency, he supported the value of seeking alternatives to a single national currency as the sole reserve. As Roubini put it, a super-sovereign international reserve currency is a constructive suggestion for the international financial system, but it would take time to actually realise such a system.

Lord Davidson, Advocate General, UK Government, chaired a panel on the WTO Doha Round. Given that the WTO is dedicated to the proposition recited by many of the leaders at the Boao Forum, namely that global recovery required trade to remain open and free, and protectionism would be counter-productive, this panel was of special interest. Pascal Lamy, the Director General of the WTO stressed the organisation's continued dedication to the Doha effort, despite challenges. Lamy stated clearly that the WTO is making every effort to prevent regional international trade protectionism from spreading around the world. In contrast, Yi Xiaozhun, Vice Minister from China's Ministry of Commerce noted that in the economic downturn, with many natural forces suppressing the consumption of Chinese goods in big markets, China's exports have been heavily hit by international trade protection measures taken by many developed countries. But still, Minister Yi stated, China promises not to build any investment and trade barriers and to facilitate open international trade and trade finance. Ishige Hiroyuki, Vice Minister for International Affairs from Japan's Ministry of Economy, Trade and Industry, expressed hope that the Doha Round could make progress and prevent the further spread of protectionism. In terms of its original schedule, the Doha Round has fallen behind, but the conference participants generally expressed their belief that progress is more important than ever as a result of the crisis and the rise of protectionist impulses.

Protectionism is primarily a political issue and is stirred by populations who feel threatened by open borders. Commenting from Europe, Anne-Marie Idrac, France's Minister of State for Foreign Trade, pointed out the political challenges leaders faced when unemployment was high and growth sluggish at home, with citizens clammering for protection from imports. Minister Idrac said when discussing matters of international trade and trade protectionism, political will should also be taken into account. This very sentiment was confirmed by Kim Jong-hoon, Republic of Korea Minister of Trade. Unemployment is a risk for governments everywhere, and media and the public often see protectionism as a means of creating employment at home, even though experience does not support that perception.

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Politicians have to care about the companies and people of their own countries; that is why protectionism exists. The more intervention from governments, the more severe is this protectionism.

Robust growth, not protectionism, is the solution to employment growth and long-term stability, and that invites discussion of finding growth drivers in an era of tightening regulations. Many of the key discussions at this year's forum raised the issue of government intervention and markets, and it was the main focus of a panel dedicated to this issue chaired by Leon Brittan, Vice Chairman, UBS Investment Bank and a former commissioner of the European Commission for a decade beginning in 1989. The panel, entitled "Balancing Financial Innovation, Openness and Oversight," explored the relationship between regulatory and market forces, between market-driven innovation and statutory discipline.

On this panel, Liu Mingkang, Chairman of the China Banking Regulatory Commission and former Governor of the Bank of China, drew on his experience as both a banker and a bank regulator in a broad discussion of the regulatory approach to China's banks. He made several points. First, Liu noted that China's banks were in good condition, and their non-performing loan situations were under control. Secondly, he pointed out the steps that had been taken by regulators to assure that resources were directed toward the growth sectors of the economy. In the face of concern that credit expansion has been excessively directed toward large state-owned enterprises, Liu explained how the government and CBRC have set up a "compulsory" system among banks to ensure small and medium sized enterprises (SMEs) obtain proper finance. This system includes establishing an independent SME loan centre, separate accounting systems, HR compensation & reward systems, black-list rules and needed support to cooperate with equity investors, like VC and PE funds. Liu also detailed how Chinese banks were encouraged to go abroad to serve their clients but also cautioned about uncertain regulatory standards in some places where they might wish to operate.

Since the forum, important new legal platforms have been developed by Chinese regulators to support equity investment funds and the kinds of partnership arrangements needed to facilitate the kind of cooperation. Since the forum, China has liberalised a range of measures affecting equity investment funds, part of an effort to channel excess liquidity in the hands of large enterprises into SME growth industries.



Middle: Liu Mingkang, Chairman, China Banking Regulatory Commission

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...We are encouraging bankers to go abroad... But the problem is presently like the lyrics of a well-known song. Right now, the world out there is not very pretty; the world out there is really in a mess. Why would we want to go out into a place that was such a mess?

Liu Mingkang  
Chairman  
China Banking Regulatory Commission

Moving outside the regulatory perspective, Ma Weihua, President and CEO of China Merchants Bank, emphasised the work that Chinese banks still have to do at home. Prior to exploring the overseas markets, Ma argued, Chinese commercial banks need to focus on domestic business and enhance overall competitiveness. China Merchants, headquartered in Shenzhen, has a history of innovation in the banking sector, including innovation in the use of consumer cards and e-commerce services. Ma said innovation was the lifeline of his bank. In Ma's opinion, the global crisis has not inhibited the innovative capacity or will of Chinese banks, despite a strengthening of regulatory oversight.

Hong Kim, President Asia Pacific, Bank of America and Merrill Lynch, also focused on industry's roles in establishing discipline in financial services. He argued, oversight by regulators of financial markets is absolutely necessary, but industry self-regulation and internal examination are also very important in the long run. Gerry Grimstone, Chairman of Standard Life, saw the issue from the enterprise perspective as well, but put the emphasis on governance. Balancing financial innovation, openness, and oversight should start with the board of directors within large multinational corporations. An effective board of directors is the first and the best firewall against underlying risks. Grimstone's commentary reflected broad discussion of the role of boards and individual directors in managing credit risk, which has been widely debated since the onset of the crisis.

Naturally, there was discussion of the role of financial sector businesses, especially in mature markets, in the crisis. It is widely acknowledged that the three major credit ratings in the West failed to identify the risks that were accumulating in some of the most highly rated financial service companies. What was the view of Western and Asian leaders on these questions? Attributing cause of the financial crisis to poor pricing of credit risk, Guan Jianzhong, Chairman and President of Dagong Global Credit Rating, proposed that a global credit rating system should be set up to better serve the global economy and effectively prevent related financial risks. Well-established credit rating agencies in the US in particular have been faulted for assigning investment grade ratings to credit instruments that were not well understood by the rating agencies or the investment community.

Peter Clarke, Group CEO of Man investments, noted that hedge funds reflected the risks inherent in the entire system, and he predicted that as many as half of the hedge funds operating before the crisis would not exist when things recovered. He predicted recovery in the second half of 2009, and that has in fact been the case. Clarke also predicted that there would not be a great deal of additional international regulatory burden on the financial sector, some of which would not be helpful, although more consistent regulations and enforcement would be welcome and productive. Investors as well as regulators are certain to be more concerned about liquidity and they will demand more transparency in



Li Jiange  
Chairman  
China International Capital Corporation

the operation of every kind of investing entity. In other words, markets and competition will compel financial innovators to meet higher standards of transparency and stability. Hong Kim had made a similar point. It is not just regulation that is responsible for bringing change. Panelists reported that financial derivatives are already becoming more explicit and transparent in 2009 under market pressure in order to serve customer's basic business needs and demands.

In assessing the overall situation in financial services, there were optimistic voices. Li Jiange, Chairman of CICC, China's leading investment bank, argued that people had been too pessimistic about the financial services sector in Asia. Not only were early indications from the National Bureau of Statistics cause for some optimism, but throughout the ranks of analysts and media spokespeople an optimistic outlook has been growing. Also, the crisis handed China an opportunity to play a stabilising role similar to what it did during the Asian Financial Crisis of the 1990s.

Still cautionary notes were sounded on China's own financial situation, especially related to large levels of bank lending. Charles Li, Chairman of JP Morgan Chase, China, advised Chinese banks to continue to be vigilant about the potential of rising NPLs during periods of lending surges, which could cause difficulties in the years ahead for the banks.

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...There are people who have come to think that recent data from the National Bureau of Statistics are a cause for hope, news that creates optimism. But what is a more powerful factor in making people optimistic is the fact that among our active economists looking at the data, a large number have changed from a pessimistic to an optimistic outlook. It is this number more than the data published by the Bureau that is causing the optimism.

Daniel Tsai, Chairman of Fubon Financial Holdings Co., Ltd., commented on the relative lack of maturity in Asian financial markets. He said, "In our Asian countries, we have money on our left hand and need money in our right hand. Why can't we get the money from one hand to the other?" He argued that Asian countries need to stay open to financial innovation, in spite of the blame innovative financial instruments were assigned in triggering the crisis. Tsai also argued that Asia does not need more regulation but better regulation. In other words, considering the issue of government role, Asian economies do not need regulatory expansion but regulatory refinement.

Zhao Danyang, Director of Pureheart Asset Management predicted that in 20 years, by continuing on the path of reform and openness, welcoming the world's best financial talent into China would make China one of the prevailing financial powers in the world, basically solving the problem Tsai had raised. Talent again was cited as a key element to sustainable recovery and growth, perhaps as important as a well-tuned regulatory system. Charles Li also noted, "China still needs to fine tune the economy structure in order for sustainable development, and take this opportunity to outpace other developed countries." Since the forum, China has in fact taken major steps to open the door to foreign investors, like private equity funds, to raise RMB funds on shore and lend their talents to the efficient allocation of investment capital throughout China's industry and commerce.

As the global crisis unfolded, aggressive private equity and venture capital fund managers were no longer able to find high leverage opportunities in mature markets. An already strong interest in Asia was further stimulated by the sustained growth they saw in Asian economies, resulting in more and more funding building up on the shores of China and other major Asian economies. These funds were seeking investment opportunities with more attractive returns than could be found in the US or Europe. And as Asian economies confronted their own challenges in capital allocation, they became increasingly receptive to the participation of global money managers. Since the forum, this trend has continued, with regulatory changes, and innovative deals and deal structures being announced almost daily across Asia.

A panel dedicated to analysis of this trend, entitled "Private Equity & Venture Capital: Opportunities in Emerging Markets" was hosted by Neil Shen, Founding Managing Partner, Sequoia Capital China. Shen opened the discussion by stating that the crisis had had the genuine benefit of helping fund investors filter out the emerging market companies worth investing in.

Of course, in the months immediately following the acute stages of the crisis, fund activity in Asia also slowed dramatically. Since the forum, it has picked up, but during the Spring quarter when the forum was in session, fund activity was slow. Reasons for this were laid out by Liu Erh Fei, China Chairman of Bank of America and Merrill Lynch. Liu proposed four key reasons. First, there was a crisis of confidence because of large losses in other markets, which slowed the processes of making investment decisions to a standstill, as funds paused to assess their post-crisis situations.

Secondly, for a period of time there was a serious valuation gap between investors and portfolio companies, while investors digested the plunge in market values associated with almost all sectors. Thirdly, funds were eager for quick successes, but those were not easy to find in Asian countries pausing to take stock of their own crisis situations. Finally, there was a global shut-down of capital markets, and finally a severe curtailment of exit options. Zhang Yichen, CEO of CITIC Capital Holdings Ltd. believed that the impact of the slowdown on China was more structural than financial. The global financial crisis had a huge impact on VC/PE markets, according to Zhang, but for China, the impact on investment models is much greater than on fund raising per se.

At the time of the forum, many PE and VC investors reported that the stalling of IPO opportunities had actually increased interest among entrepreneurs in financing from funds. But they also reported that business leaders looking for finance had not fully adjusted to the reduced valuation of their assets being made in the wake of the crisis and stock market declines. More recently, surveys have indicated that equity investors are experiencing a surge of new confidence, and not only have global stock markets recovered significantly from their lowest levels of the crisis, but the IPO market in Asia especially is showing very strong signs of life.

Dai Xianglong, Chairman of China's National Council for the Social Security Fund, stated that PE and VC funds would enjoy "breakthrough" support from the Chinese government, in terms of regulation and direct financial participation. He anticipated the Social Security fund itself investing in three to five private equity funds during 2009, and in subsequent months we have seen that process begin. Dai agreed with the observation Shen had made, noting that not only did the crisis improve the prospects for PE and VC funds, but valuations were more favourable than in previous quarters, making equity investments easier to justify.

As global money managers look at Asian markets, they are aware that target companies will benefit from more than just capital injections. Christopher Bower, Chairman and CEO of the Pacific Corporate Group, spoke of the value of finding synergy via the transfer of advanced technology into emerging market acquisitions. Of course, this kind of knowledge transfer is a two-way street, as Bower noted. Global money managers have much to learn about the special investment circumstances of Asian economies, and together with their targets and cooperating limited partnerships (LPs) in Asia will develop and refine new tools for identifying and measuring the risks in Asian investment environments.

Bob Nelson, Co-founder and Director of Arch Venture Partners, singled out Chinese universities and research institutes as a particularly rich area to find targets for early stage venture capital investments. Nelson mentioned in three areas: 1) basic innovation originated from China; 2) hybrid technology integrating local knowledge and overseas technology; 3) breakthrough technology, especially in energy.

# Drivers of economic recovery – the real economy

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It's like the Chinese have said, we have to cross the river by feeling the stones. This expression contains a lot of wisdom regarding managing the financial crisis and economic reform. Our future goals are very important, and the journey is very complex. We have to cross the river by feeling the stones.



Heng Swee Keat  
Managing Director  
Monetary Authority of Singapore

Heng Swee Keat, Managing Director, Monetary Authority of Singapore, made a point in the discussions on the financial sector about the balance point between financial markets and the real economy. To establish an effective and co-operative international financial system is a long-term goal for all countries, but it takes time and needs balance between financial markets and the industrial economy.

Perhaps first and foremost where events in the financial sector impact the real economy is in commodity pricing. Even prior to the crisis, there was discussion around the world about commodity volatility, and the question was frequently raised as to whether financial innovation, especially the securitisation of commodities with new publicly traded instruments, was contributing to volatility. Stephen Engle, TV Correspondent for Bloomberg TV, chaired a panel dedicated to such issues, entitled "Price Fluctuations and Emerging Market Strategies." This report has already discussed the warnings sounded by economists about government stimulation and potential inflation, as well as warnings that commodity pricing in particular could see high levels of volatility. This poses the risk of a potential reversing of the gains made through stimulation programmes. However, Fu Chengyu, President of China National Offshore Oil Corporation (CNOOC), pointed out that measured inflation was actually an intentional policy of many nations, as they seek to create high levels of growth in their money supplies and encourage some inflation in commodity prices as a way of dealing with the crisis and improving measurable growth.

Zhang Xianqiang, Vice Chairman of China's National Development and Reform Commission, blamed financial speculation by financial institutions in commodity markets, without effective oversight, for the price fluctuation of primary products throughout 2008 that were completely outside the normal forces of supply and demand. Along with his implicit call for better regulation of these markets and more transparency, Zhang pledged that China, for example, would move toward more market-oriented processes in oil pricing, after a series of appropriate reforms are in place. Klaus Engel, Chairman of the Executive Board of Evonik Industries, agreed the price fluctuations of commodity products that have been caused by financial speculation. His solution relied less on regulatory oversight and more on market competition. He called for better forecasting, more renewable energy capacity, and more strategic procurement mechanisms to deal with the negative impact of financial speculators on essential commodities.

Russell Scrimshaw, Executive Director Commercial, FMG, took the discussion in a slightly different direction, blaming a lack of confidence in the future and a very short term view on the part of both suppliers and buyers of commodities like iron ore. Scrimshaw called for companies to act aggressively in the short term but at the same time think of long term stability. On the subject of iron ore, which has become even more a topic for media since the forum, Xu Lejiang, Chairman of the Baosteel Group, opined that the surge in ore prices was driven by speculators and the subsequent large drop in prices was the result of a sensible correction.

Since the forum, these discussion points have proven to be highly relevant to a continued unsettled situation in iron ore markets. Under heavy pressure from slow demand and excessive supply, iron ore producers have sought to move away from long-term contracts toward more reliance on spot markets. Very much to Scrimshaw's point about the need for a long-term view, unfortunately high levels of volatility undermine the confidence of buyers and sellers in the sustainability and duration of any level of pricing, making a fact-supported long-term view difficult to develop.

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...We have now reached a stage of structural adjustment, because supply exceeds demand, and we have such massive capacity, and some of this capacity is very outdated, if this structure is not dismantled, then the sector will not be able to develop well. Looking at upstream production, we are also seeing signs of a mistaken direction in the amount of mining capacity demanded. Do we really need this kind of capacity? Or don't we?

Scrimshaw said that urbanisation in China virtually meant that China built a new city population every year equal to all of Australia. As such, China was very crucial to world demand and supply-demand balance. This theme of demand in China was echoed by Mahamed Al-Mady, CEO of Saudi Basic Industries Corporation. Al-Mady said that during the crisis, with a global plunge in demand, China's stimulus package boosted demand for major raw materials, which means a lot for commodity industries around the world. Based on a comprehensive supply chain perspective similar to Xu Lejiang, Al-Mady suggested the establishment of a price linkage system along the value chain, between upstream and downstream, in order to stabilise price fluctuation and mitigate risks. Al-Mady believes that sharing the risk in this manner could improve confidence in the idea that everyone along the supply chain could earn adequate margins and share a common interest in the overall health of the entire sector. But in a fast-paced and fast-transforming global marketplace for critical non-renewable commodities like energy and minerals, in practice this would be hard to achieve.



Xu Lejiang  
Chairman  
Baosteel Group

Zhang also expressed the expectation that China should gain more influence over global commodity prices, because China has become one of the biggest buyers across a wide spectrum of commodities. China has developed a multi-faceted engagement with global commodity producers, via international trade, foreign investment, foreign aid, and resource development assistance from Chinese corporations. CNOOC President Fu Chengyu expanded on this idea, suggesting Asian countries should work together to gain more bargain power over world commodity prices.

Commodities are an area where the financial sector closely touches the real economy, and real estate is another. Real estate investment links banks to development and ownership, and represents the asset class that is most important as a wealth reserve for private citizens, wherever home ownership is significant. No sector is more important for the real economy than the real estate market, and the special characteristics of Asian real estate have created a number of special challenges during the crisis. The importance of real estate markets in Asia is based on Asia's high rate of urbanisation, high rates of overall economic development, dense populations, and the conversions of economies from command economies to economies where markets and private ownership are playing a growing role.

The central importance of real estate is also influenced by the special role of property development in government and government revenue. In China, local governments depend heavily on revenues derived from land use rights. In Hong Kong, conversion of undeveloped land to developed land is a major source of government support. Useable land is in short supply in most major Asian cities, in most countries as a whole, so competition among potential development needs and land uses is intense. In most Asian economies and certainly in China, there are imbalances in the development of land and a stubborn shortage of affordable housing for large populations moving into home ownership for the first time.

Most analyses of the global crisis see the significant influence in the crisis of the US and certain European property markets, the valuations of property in those markets, and the credit practices associated with those markets. Mortgage backed securities were key to the collapse of lending institutions in the US and Europe and the huge deficits formed on their balance sheets. These factors made this discussion a key in seeking the links between the financial sector and the real economy.

It is therefore not surprising, as many analysts have noted, that the health and sustainability of real estate markets is of primary importance to government leaders. As the panelists emphasised, Chinese leaders moved quickly to support real estate markets and development as the global crisis unfolded. And even though Chinese lending and valuations issues did not resemble those that triggered the crisis in the West, there was urgent concern about sustainability of the real estate sector, both the value of real estate assets and the role of real estate development in employment and demand for much of the state-owned sector.

Qin Shuo, Chief Editor, China Business News, and chair of the real estate panel, commented on the quick response of the government in the real estate sector to the crisis. He also noted that the government needs to be specific and clear in drawing up its relevant policies. So his first question to panelists was about the government's role in stabilising the industry.

Pan Shiyi, Chairman of SOHO China Ltd., one of China's most prominent listed real estate developers, agreed with the importance of appropriate government policy, but he also underscored that such policy from the government must be timely. Pan noted that many were asking if growth in the real estate sector was sustainable, and he offered a comparison to electricity generation, industrial output, and other sectors that were in economic retreat, while only real estate was continuing to march forward. Noting that real estate markets remained relatively strong, he underscored the importance of maintaining government support of the sector. But in Pan's view, just as critical was policy openness to continued development by market-driven developers.

Some panel participants, including President of Huayuan Group, Ren Zhiqiang, called for even stronger government policy support. He noted that the lack of regulations in the US certainly contributed to the crisis, but governments can do a lot to remove unnecessary costs, especially in a



Pan Shiyi  
Chairman  
SOHO China Ltd

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...In the present situation, the promoting of government policy is like fresh food, there is a certain period where freshness can be guaranteed. That is to say, taking steps before the end of 2009 will be effective. Afterwards they will not be. Why is this the case? Because we hope that in the course of 2009 the economy does not slide into an even more serious crisis.

crisis. He noted that China had done a lot to support the sector, but many tax burdens remained. Accordingly, he urged consideration of the removal of sales taxes, title taxes, and capital gains taxes on real estate transactions to assure sustainable growth and affordable pricing. Ren reviewed some of the constraints that the government placed on developers, including standards and requirements related to unit size in square meters and other similar specifications of residential development. China also continues to have a mixed housing situation, Ren noted later in the programme, with a substantial continued involvement by employing enterprises, directly and indirectly, in the housing ownership of their employees. These are new style situations, different from the legacy of the large role of enterprises in the non-work life of employees, but they still are forces shaping the real estate market.

Ren also pointed out that the major consideration in China's residential market is the growth of consumer spending capacity. The amount and quality of bank lending through residential mortgages was less of an issue in China, a key difference with the credit crisis in the US.

Ren also pointed out two constraints - the government can implement a powerful stimulation policy, but in the end, the macro-economy has to respond favourably, depending on many factors.

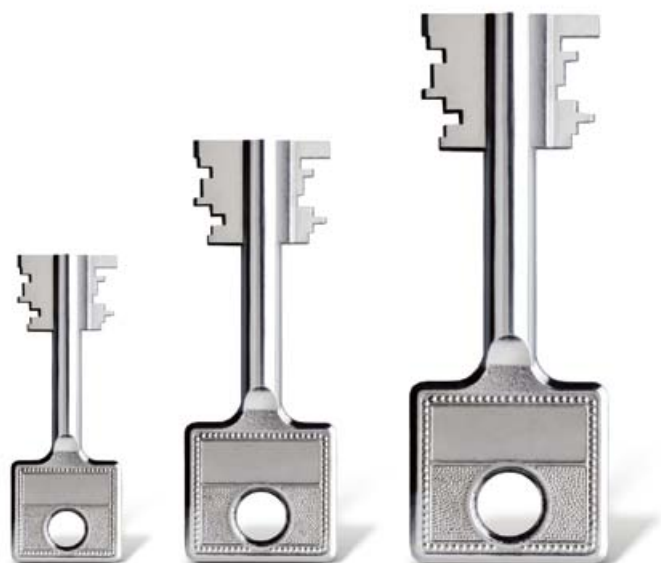
When asked about recent government announcements encouraging the construction of more affordable housing built to certain specifications, Pan explained that public companies like his have to consider shareholder interests as well as other interests in determining their strategic investment and priorities. Ren joined in expressing his concerns about the viability of the public housing build-out. Developers had certainly noted a number of implementation plans related to low-rent public housing initiatives. Panelists explored the complexity of the various roles played by the central government, local governments, developers, and investors in addressing the need for affordable public housing.

Jackson Xu, President of Oulin Group, discussed the sales model of China's real estate markets, the pros and cons of selling finished units as opposed to unfinished units, where buyers take on the responsibility of the final interior finishing of a unit. Noting this was a difference from real estate markets in the west, China's selling model provided buyers more flexibility in their use of personal resources, perhaps staging the investment or controlling costs. But problems with the contracting process had invited government attention to this selling process. It was a good example of a market characteristic special to China that had helped developers grow the market but that was now coming under regulatory scrutiny that could have an adverse impact on growth.

Deloitte partner Norman Sze noted that the global crisis had certainly called attention to the sector and raised a lot of economic issues related to real estate. Everyone was watching the real estate sector carefully, because real estate represents an expenditure and an investment factor in the economy, and property plays an important role as collateral for several kinds of credit important to the economy. There is no question that at least on the surface we all should support the government policies contributing to the sector growth. Sze explained there are two factors in his thinking. Everyone needs housing, and so the development of a stable private housing market is a tremendous challenge for the big banks. Secondly, there are the economic concerns. For families it is a key economic issue. Families have a major commitment of their wealth in housing. Because of the collapse of real estate related assets in the West at the onset of the crisis, Sze pointed out that for governments, banks, developers, and consumers alike, the stability of the real estate sector was an issue of basic credibility for the economy. Therefore, from the consumer's perspective, if government takes effective action in protecting and preserving the value of their personal investment in real estate, it is certainly very welcome by consumers.

Another important discussion topic related to the real economy was the importance of the SME sector. Throughout the first year of struggle with the global crisis, Asian leaders have agreed that the SME sectors of their economies were important sources of innovation and key drivers of growth and employment. Yet, SMEs had suffered considerably from both the export slowdown and the reallocation of capital to larger enterprises and to massive infrastructure projects, because they represented the quickest way to inject liquidity into the system. Liu Chunhang, Director General, Statistics Department and Research Department of the China Banking Regulatory Commission (CBRC), confirmed that SMEs make a great contribution to the country's GDP, tax revenue and employment.

Invigorating the SME sector to make the greatest contribution to recovery is not purely a matter of capital allocation, however. SMEs in Asia are most often rooted in family enterprises, and they are challenged to attract the level of talent and to train their existing high potential managers to build a strong, professional management team necessary as the businesses grow, and especially as founders become less active in day to day management.



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How to finance SMEs is not an issue specially related to China, but a common problem around the world. As well as self enhancement of SMEs, more favourable and transparent environment should also be set up to facilitate SME financing.

Liu Chunhang  
Director General  
Statistics Department and Research Department of  
the China Banking Regulatory Commission

The issue of SMEs and their search for finance and management talent was the subject of a special panel, chaired by Xiang Bing, Founding Dean of the Cheung Kong Graduate School of Business in Beijing. In opening the panel, entitled "SME Strategies: Attracting Talent, Securing Financing, and Achieving Growth," he noted that fewer great businessmen will emerge if the country is full of entrepreneurs but they have limited management skills. He also pointed out that as businessmen became busier and busier managing the urgent financial crisis, they should not lose sight of the need to study and improve their technical management skills.

Addressing the difficulties SMEs faced in getting finance, Chi Schive, Chairman of the Taiwan Stock Exchange Corporation, described many SMEs as small-scaled, financially unstable, single product companies that had little expertise in marketing and other modern corporate functions. At early stages of development, they grow and prosper by highly efficient utilisation of limited resources, and this same skill helps them survive even difficult times. However, those that enjoy the potential for rapid growth need to grow beyond the frugal culture of such founders and learn to use external finance and build modern management skills. Economists in later discussions reported that as many as 80 percent of SMEs had no external financial relations or support.

James Quigley, CEO of Deloitte Touche Tohmatsu, stressed the importance of SME leaders learning how to provide adequate, reliable and timely information to potential investors. Investors need confidence to finance SMEs, Quigley argued, so providing timely and reliable financial information is the key.

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I don't think any entrepreneurs should try to suppress growth because they think they are going to deny themselves options. What growth does is simply creates options. And it opens other doors, and it allows you to compete for capital from many sources....



Second from left: James Quigley, CEO, Deloitte Touche Tohmatsu  
Third from left: Mr Liu Chunhan, Director General, Statistics Department and Research Department of CBRC  
Second from right: Mr Richard Zhang, Apex Partner

Richard Zhang of Apax Partners listed several ways that governments can support SMEs, with financing, reducing administrative burdens, and stimulating relevant areas of consumption. He saw special opportunities in the financial crisis for SMEs, providing they can show strong management and good market positioning. For an SME to get adequate financing, it must demonstrate growth potential, according to Wolfgang Lehmacher, President and CEO of Geopost Intercontinental. Whether seeking financing from funds, banks, markets, or through strategic alliances with other companies, SMEs show the potential for high-speed growth in their proven ability to manage human capital, innovation and the exploration of new business areas.

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...I have recently run into a number of very successful founders of SMEs. They report that prior to the financial crisis, times were tough for them. First was the tiger and then the wolves. So, it was competition from multinational corporations before the crisis. And then when PE and VC funds became active, many enterprises arose with their funding. Now, with the global crisis, finance for these enterprises is flowing abundantly.

Richard Zhang  
Apax Partners





Balasubramanian Muthuraman  
Managing Director of Tata Steel

Schive explained that SMEs must innovate because they lack monopoly power over markets, but they also lack the depth of talent necessary to sustain large scale innovation and commercialisation. Gunjan Sinha, Chairman of MetricStream Inc, drew the connection between innovation, financing, and talent very clearly. Innovation is the key factor to help SMEs sail through financial crisis, and this means actively seeking alternative financing channels and attracting and maintaining right talent.

With ever-increasing engagement across borders, inbound and outbound investment not only increasing in size but also in variety, a valuable discussion of best practices across cultural and national borders was essential. Christopher Graves, President and CEO, Asia Pacific Ogilvy PR Worldwide, hosted a panel entitled "Best Practices of Doing Business in Emerging Markets" that dealt with these issues. While many types of best practices were discussed, the key elements were about brand building and building of organisational capability. Peter Ostberg, Senior Vice President of the Volvo Group, made the key point that in such engagements across borders learning goes on in both directions. "Emerging market" should be redefined because finding and succeeding in new markets is always bi-directional, for both developed and developing countries.

Balalsubramanian Muthuraman, Managing Director of Tata Steel, described ways in which all markets around the world were similar, and ways in which cultural differences were very significant. For example, Muthuraman said that brand building in emerging markets is more important because it forms a trust factor for the products in the eyes of consumers, while in developed markets, it is primarily a means of competition with other mature brands. Li Dongsheng, Chairman and CEO, TCL Corporation, reported that high value and low price are crucial factors for consumers

in emerging markets. However, Li argued, diversified demand in those markets is also surprising, especially the appetite for new technology. For instance, even multinationals may choose to launch certain new models of electronics first in China, given the spending habits of early adopters. Agreeing largely with Muthuraman, Li said this of brands. Brand strategy in emerging and mature markets should be different. There are opportunities to bring the company brand into an emerging market, but it is more feasible to acquire a local brand to enter a mature market. And major technology transformations may create opportunity to launch a new brand.

Michael Treschow, Chairman of the Ericsson group, with substantial experience in China's competitive mobile handset market, saw more commonality than difference in the significance of branding. Universal brand or multi-brand strategies both are common practice in the business world, and depend on product nature and market segment, Treschow commented. A similar sentiment was expressed by Peter Ostberg. Brand is the key that explains Volvo's success in local markets. Whether to re-brand or keep the brand after acquiring other brands elsewhere really depend on market condition and competitiveness of the acquired brand.

Treschow reported other interesting findings in his company's experiences. As well as trying to achieve economy of scale, it is important to know that an economy may have a number of very different small markets, therefore segmentation and differentiation are the key factors to succeed. In fact, recent surveys of China's emerging consumer groups confirm that all the factors in consumer buying decisions vary significantly from region to region in China, underscoring the importance of understanding not just consumers as national populations but as local populations as well.

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## Differences in culture and mindset between emerging markets and developed markets, result in operational differences, which means you pick up answers on how to achieve the target along the journey

Foreign companies operating at scale in Asia always face unfamiliar and in many cases difficult human resource issues. Treschow pointed out that like a branded product offering to various regions, the remuneration of employees working for multinational companies should be on a geographic basis, and companies need process and structure to make such practices fair. Multinational companies operating in China tend to have more structured and transparent people processes, to some extent accommodating for their relative newness to China and the sense of instability that highly talented local employees may feel when working for a multinational.

Now thirty years into reforms, multinational corporations operating in China and their Chinese partners, suppliers, and customers, have made great progress identifying best practices that lead to successful operations. These cover all aspects of business operation, such as logistics, procurement, product standards, and customer support.

# Innovation, creativity and the new economy



No one debates the proposition that innovation and creativity are keys to Asia's future growth, both economically and culturally, as delegates presenting at "The Next Competitive Edge of Asia" consistently noted. So a very high priority is to be placed on developing and retaining bright and motivated young people. This is a national concern for the government, and it is a corporate concern, especially for SMEs. John Rutledge pointed out that countries need the energy of young people who are innovative and dynamic. This fits well the argument of Professor Xu Xiaonan that the future of China and Asia lies in transforming from a labour-intensive goods economy to a labour-intensive service one.

The forum puts an emphasis on young leaders, and special activities bring together high potential young leaders from Asia and around the globe. Hosted by Rui Chenggang of China Central Television, a young leaders discussion panel was entitled "Leadership in a Time of Crisis." Tony Burke, Minister for Agriculture, Fisheries and Forestry, Australia, spoke with the group not only about the assets they bring to their countries but also the responsibilities they must carry. "Leaders also need to balance long-term vision and short-term needs especially in such a critical macro environment."




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As for young leaders, age is the asset,  
but also means they will take their  
responsibilities for a longer time

Tony Burke  
Minister for Agriculture, Fisheries and Forestry  
Australia

What are the special strengths that young leaders bring to the crisis environment? Robin Li, CEO of Baidu, China's leading internet search engine, made a key point, "Young leaders have a natural advantage to encounter crisis in a more innovative way as they are not limited by burdens and stock-in-trade." Just as experience is a virtue in many situations, the lack of experience can be an asset when strong, innovative ideas are needed.

A panel was devoted to the creative industries themselves, hosted by Phoenix TV Chief Commentator, Anthony Yuen. Sir Martin Sorrell, Chairman of WPP, spoke about the creative arts in Asia generally, and scoped his discussion broadly to cover everything from popular media to more specialised forms of creativity such as Asian landscape design, architecture, gaming, manga and anime, furniture design, and fine arts. Sir Martin said that even the title of the session suggested Chinese do not feel they are creative, and he disagreed strongly, praising the tremendous progress in and great value achieved by creative industries in Asia in the last few years. He proposed that the new media and transformations in entertainment are an invitation for Asian countries to stake out global positions in them. He said Asian countries should be proud of the achievements that have been made in creative industries - with large market scale, diversified portfolios, and the success stories of artists, filmmakers, etc., especially the progress made in the past several years.

André Morgan, film director and producer, also reviewed the many years he has been involved in the Asian film industry, adding to Sir Martin's point, noting that creative industries have become increasingly open to expression of more and more of life, and turning more and more toward well-received entertainment. He expressed confidence that while the industry in India was already quite advanced from a global perspective, compared to China, this process of opening in China would continue and China would become a major global presence in a range of creative arts. Morgan noted that the constraints on development of creative sectors like film in China were less an issue of government policy than the self-perception of many Chinese and perhaps an excessive concern about how the rest of the world views China.



Robin Li  
CEO  
Baidu



Sir Martin Sorrell  
Chairman  
WPP

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The world should stop thinking about things being 'made in China,' and start getting used to the phrase 'created in China.' There is a big and important difference.

In introducing Jackie Chan, actor and Vice Chairman of the China Film Association, Anthony Yuen noted "he needed no introduction." Jackie Chan is in fact a worldwide brand and has demonstrated the potential of innovation to create presence beyond the borders of China and an example of a very successful projection of Chinese soft power. Following a brief introductory film showing Chan with children in various locations around the world, he spoke about his own upbringing and the path that led him into creative endeavors. Chan talked about the tension between models - in his case the kungfu film styles of the most famous kungfu actors, and the innovation of his own style.

Looking at China's domestic creative sector, Chan called on young Chinese artists of all types to support China and its global image. Chan, certainly one of the most creative Chinese actors familiar to audiences around the world, spoke to both the public and individual role in creative endeavors. For the individual, creativity was a continuous challenge to one's personal limits and required exploration of potential in order ultimately to achieve one's goals. For governments, appropriate regulations were needed to prevent disorder in media and entertainment, while at the same time recognising the importance of individual expression. Chan expressed great pride in the role his films have played in introducing important Chinese cultural traditions, like the martial arts, to global audiences, and the credibility that the successful export of China cultural products to the world creates for the country.

Neil Shen, Founding Managing Partner of Sequoia Capital, provided an investor's perspective, and he agreed that supervision from the government over this industry is necessary, as it is still in early development stage, and current policies actually provide support and guidance.

Turning to some business aspects of the entertainment sector, Liu Changle, Chairman and CEO, Phoenix Satellite TV, described the trend of regional consolidation in media, publishing, and broadcast sectors. He also paid tribute to the recent growth in Asia's creative sectors, and pointed out the huge growth potential ahead, given low penetration rates and fast urbanisation rates, among other factors. With China's creative industries contributing only 2.5 percent of GDP, according to Liu, compared to 25 percent, 17 percent and 16 percent in U.S., U.K. and Japan respectively, creative industries should be considered the core of China's future growth. Liu noted that it is difficult to measure statistically the success of all forms of intangible asset creation, but such creative work is essential to China's future growth.

Shen reported good results from investment in creative sector enterprises, especially gaming, where from an investment perspective Asia's experience has been strong. Asian game developers have shown a knack for innovation and commercial success second to none in the world. Shen noted that a well-managed gaming company could provide sustainable growth and is an excellent example of good brand development. In much of Asia, development of strong brands remains a widely regarded key to moving up the value chain in many sectors.

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...Everyday I am involved in innovation,  
and only in this way can I reach this level  
of achievement....



Jackie Chan  
Vice Chairman  
China Film Association



André Morgan  
Film Director and Producer

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## Today's entertainment is tomorrow's culture

Creative industries like advertising have by no means escaped the impact of the crisis and the slide of real economy performance. They remain extremely appealing for employees and entrepreneurs, and their potential for meteoric expansion attracts investors globally. They are by nature consistent with all of Asia's green growth agenda, and potentially drive significant employment gains.

The importance of new media sector creates opportunity for China and other Asian countries to build and expand markets elsewhere, compared to traditional media forms. Panelists called on governments to implement the kind of regulations that provided adequate discipline over public content without stifling creativity in the society, and they noted that support for the development of creative societies spanned activities from the education system to the legal systems for protection of intellectual property rights. Panel discussion confirmed that weak protection of intellectual property rights is a failure that hurts the development of domestic creative industries and suppresses the emergence of talented local artists as much as it hurts foreign investors in areas like technology.

Three themes emerged from this panel on media and creativity. There is of course a high level of interest in Asia in the relationship between media and the development of society. Chan himself made the interesting point, "I studied martial arts, and from that I learned how to make films. Then from the experience of making films, I learned how to be a good person." But how does a society and government find the right balance between control and guidance of creative sectors and a level of openness that supports innovation and excellence in the sectors? Secondly, what are the best relationships between the work and success of individual artists in all creative endeavors and public and private source of finance, models of ownership, and intellectual property protection? Finally, what are the relationships among individual expression, society in general, and responsibilities of artists in societies around the world to represent their own cultures and societies to the outside world?

The fine arts were addressed in a meeting entitled "Contemplation and Communication in Search of a Value Consensus in Asia - Boao - Asia Contemporary Art Salon," a special event chaired by Fan Di'an, Director, China Art Museum. This salon focused less on the economy than most forum activities, yet Fan began his panel by pointing out the close connection between the state of the economy and the state of the arts. Professor Zhao Li of the Chinese Central Academy of Fine Art did focus on art markets, their investment value, economic impact, and future potential, as well as their aesthetic value to society. Professor Zhao estimated that 8.4 percent of China's total trading market was arts related, trailing only the US and UK. He took up the issue of regional integration of the arts, observing that it was a rational economic trend, but he was uncertain that sufficient cultural, values, and aesthetic consensus had emerged in the region to support a strong movement toward integration of arts markets.

Zeng Fangzhi, a renowned practicing artist, reflected a different perspective and countered that artists are most likely to follow their heart. They do not choose to be artists to make money. While this was not really a disagreement, his emphasis on individual pursuit of the arts reminded participants of the importance of sustained cultural development as a complement to sustained economic development.

In developed and developing economies, nothing exemplifies the economic importance of creativity and innovation more than the internet and the constellation of business activities it enables. At a panel devoted to the internet, entitled "Another Winter for Internet? - Driving Growth Through Innovation," Vice Minister Xi Guohua of China's Ministry of Industry and Information Technology raised three points. China is taking the financial crisis as an opportunity to push development of all internet related business. The development of broadband and other IT services drives even the manufacturing economy significantly, especially with the massive investment in 3G infrastructure and handsets. Xi said that China will further develop the internet sector, with a series of measures to enhance internet infrastructure, fine tune the structure of the sector, support innovation and technology application, and strengthen regulatory administration. But even as he recognised the potential of e-commerce to drive growth in the coming years, he noted that there were still serious infrastructure deficiencies to support large scale e-commerce in China, many related to credit and authentication. Most observers of China's e-commerce development are coming to believe that challenges to transaction completion and delivery, for example, are now being solved, but the full complement of buyer and seller protections is yet to be put in place, and that will slow e-commerce from reaching its fullest potential.



Zhang Ya-qin  
Corporate Vice President  
Microsoft

Lee Kaifu, formerly a global VP of Google and now a Founding Managing Partner of his own investment fund, argued that the internet was even a powerful tool for cost reduction during the crisis. Lee foresaw the transformation of internet usage and search functionality, with a future of mobility, individuation and intelligence as strong trends providing new business service opportunities. Ding Lei, CEO of Netease, looked to the spread of 3G capacity and usage as a major force of future transformation of many elements in Asian economies.

Mark Penn, CEO, Worldwide Burson-Marsteller, pointed out that the internet sector remained very strong through the crisis. With or without the presence of the crisis, Penn noted, internet development has been healthy since the last bubble. By virtue of its innovative nature, the internet-driven new economy has great influential power over society and economy nowadays. Martin Lau similarly described the internet in Asia as relatively strong, in spite of the crisis. He described the viral nature of internet growth, explaining how migrant workers are carrying internet know-how back to the countryside, and in so doing create a grass-roots innovation engine that will yield untold benefits. Charles Cao, CEO of Sina.com, went a step further, expressing his belief that the financial crisis actually speeds up the transformation of traditional media into new media, with all participants in the new economy value chain, e.g., terminal makers, operators, content providers, and all the service providers making their own, unique contributions. Why is this the case?

Cao explained that the financial crisis actually drives internet growth and innovation because of the essential efficiencies in converting media to internet based forms. Cost management is a response of every company to the crisis, and finding more efficient ways of delivering products and services is an essential strategic initiative. Zhang Ya-qin, Corporate Vice President of Microsoft echoed this key point. Zhang cited the high speed growth of the gaming sector and said that in good economic times, the new economy is a major driver of growth. In bad economic times, it is an important means of survival and recovery.

The assessment of the creative industries and the internet was very positive. Looking at China's experience, completely new enterprises have arisen, drawing in global financing, expanding on subscription and advertising growth, and increasingly entering markets outside China as investors and exporters. Market saturation remains very low in key demographics, so sustainable high growth rates were generally foreseen. The internet is among the financially soundest sectors of China's entire economy, not to mention the service economy, a process Penn noted has been true since the bubble. Ding Lei, CEO of Netease, was joined by others in forecasting a positive push on internet sector from the huge 3G roll-out underway in China. Panelists noted the financial crisis was somewhat less a threat in creative sectors, and the creative sectors and new economy were an essential part of the recovery.

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...I believe in five years every company will be an internet company. If a company does not use the internet, beneficially use it, then this company has no way to survive. It's like a highway. Every enterprise and every person needs it.

Countries across Asia are constantly reviewing and developing their regulations regarding creative industries, including the internet, and others sectors that define the public cultural sphere. Since the Boao Forum, the State Council passed a new Culture Industry Rejuvenation Plan. The plan provides guidance and goals for the economic development of the sector and the cultural development of the sector. The plan argues for regional integration of channel and content providers. Importantly it calls for more creativity in everything from animation to serious films. Throughout the programme, the government's role in both supporting and regulating creative industries was a major theme. Asian governments recognise the cultural and historical differences from other regions in the world and the influence this has on how the new information economy impacts them. The difficult balance point to achieve is between supporting the sectors for strong economic growth, including growth in content quality, while maintaining order and content consistent with public values.

# Stability, harmony and quality of life



Yasuo Fukuda  
Former Prime Minister of Japan

In many of the panels and presentations, the serious challenges that confront fast growing Asian economies were discussed, and leaders across sectors expressed their commitments to addressing them. At the Hainan Provincial Government hosted lunch, for example, Former Prime Minister of Japan, Yasuo Fukuda stated directly that social and environmental issues could not be overlooked, even as governments focused on economic recovery.

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Asian countries should seriously deal with issues like wealth inequality and social instability, while achieving high economic growth

There is nothing more important to the quality of life than an environment that is clean and supportive of long, healthy, and productive lives for citizens. This theme was pervasive at the 2009 forum. Several sessions on the main programme as well as sessions posted as special events dealt with this. Deloitte Touche Tohmatsu hosted an evening soiree entitled "A cleantech future and the future of cleantech" focusing on clean technology. An interactive panel developed a sense of priorities for Asian countries to meet their green growth objectives, and included discussions of renewable energy sources, clean technologies for traditional energy sources, and energy conservation strategies.

A dedicated luncheon panel was chaired by Christopher Graves, President and CEO, Asia Pacific, Ogilvy PR Worldwide, entitled "Time for a New Green Deal." Graves raised an analogy for the financial crisis of a heart attack victim. When he is brought to the hospital, do you have a discussion about life style, or get his heart working again? In other words, is the crisis the right time to engage a vigorous new green deal?

Matti Vanhanen, Prime Minister of Finland, presented the keynote address at the lunch and began by saying that even though the crisis, impacts the entire world does not mean that we can neglect the urgent imperatives to modernise national, regional, and global infrastructures with green growth as a goal. He framed the challenge of green growth during the crisis clearly by raising three critical points. There are conflicts between the goals of rapid growth and environmental protection. Innovation is the solution, and successful innovation requires seamless cooperation among universities, research institutes, corporations, and sources of financial support. And finally, it is necessary to have a global agreement for environmental issues, to include developed countries, emerging countries and developing countries, and those countries should take different levels of responsibility. Prime Minister Vanhanen emphasised the demand and growth opportunities of green initiatives as a boost for national and regional economies as a more likely outcome than a burden that slows their growth. Between 2007 and 2008, Finland increased R&D investment in alternative and clean energy significantly and focused on creating a more favourable business environment for investors interested in green growth.

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We all are concerned about the conflicts between government economic stimulation plan and environment protection, therefore it is very important to increase R&D investment and develop innovative and clean technology



Matti Vanhanen  
Prime Minister  
Finland

Wan Bentai, Chief Engineer of China's Ministry of Environmental Protection firmly stated China's commitment to green growth. Addressing a question about the world's concern that the crisis might compromise China's commitment, Wan acknowledged that there were doubts in some quarters that initiatives like China's RMB4 trillion stimulus package would pay sufficient attention to environmental needs. He acknowledged that the development of alternative forms of energy, especially renewable energy, will take many years to bring to fruition. But he noted that just a few days before, President Hu Jintao had announced the "Three Must Nots," all stressing that China must not delay or abandon its important initiatives to develop infrastructure and technologies aimed at green growth goals.

Wan assured listeners that the stimulus package was aggressively and proactively focused on environmental issues, and further that China has published a series of laws and policies to ensure the implementation of environment protection measures and to assure China achieves its targets of energy saving and carbon emission reduction. In fact, substantial stimulus spending has already been successfully directed to electrically driven urban mass transit, including a massive subway and light rail build-out in major cities, and high speed train lines are being completed that will reduce the need for fossil fuel consumption by both automobiles and aircraft.

Koo Ja Young, President and CEO of Korea's SK Energy warned of the finite supply of fossil fuels, and agreed with Wan's observation that renewable alternatives will take a long time to develop. He was asked if our current dependence on fossil fuels will go the way of "whale oil," once the main energy resource for the world. Koo noted that oil cannot disappear soon, and it is unfair to characterise the oil and gas industry as a dinosaur industry, because from a technology standpoint - both exploration and use - the industry is also developing rapidly. The time will come, according to Koo, when energy prices will be high again, and the world needs to prepare now for that.



Second from right: Koo Ja Young, President and CEO, Korea's SK Energy

## Fossil fuels - oil, gas and coal, constitute about 85 percent of the energy used in the world, so oil will not disappear soon

Still, exciting new technologies for renewable energy sources were reported, like advances in biomass energy. Steen Riisgaard, President and CEO, Novozymes A/S explained that the technology to transform biomass into energy is maturing after 30 years of development, and it is relatively easy to deploy. Although it is easily competitive when oil prices are high, even at today's oil prices it is already price competitive with fossil fuels. According to Riisgaard, it will create valuable employment in the countryside, and it does not compete with the food chain for inputs. Inputs to the biomass fuel systems are waste products, such as rice and corn straw. Riisgaard estimated the widespread implementation of biomass fuel development in China, replacing about 10 percent of 2020 projected consumption of gasoline, would create 6 million rural jobs and RMB32 billion to the agricultural economy in China alone. It would also equate to a reduction of 90 million tonnes of carbon dioxide.

"What is the use of global agreements?" was a question posed by Christopher Graves to begin the questions and answers. Panelists noted that there were complicated issues in allocating roles and responsibilities among developed and developing economies. It was necessary to seek fair ways, according to the Prime Minister, to recognise the difference stages of development.

The consensus view was that achieving green growth was not a matter of one technology or another but would require a combinations of technologies, guiding by environmental, financial, and employment considerations and calculations. How should a country choose between emphasis on and investment in electrical transportation, for example, trains and electric cars, or more conventional transportation devices that are fueled by renewable biomass fuels? What will be the role of

nuclear technology in the future, given China's huge commitment to nuclear power?

For every actual and imaginable alternative, there are pros and cons that must be weighed. But there was also a consensus that a green new deal was not only necessary as an imperative for quality of life and preservation of the planet, but it would be a positive contributor to recovery from the global financial crisis.

Among the service industries that add directly to quality of life, none is more important than tourism. People to people exchanges have always been a pillar for developing Asia, and that invites discussion of the tourism industry. Obviously hit by the global crisis, the tourism industry is coming back in select areas, and will return with greater energy than ever before. A panel entitled "Financial Crisis and International Tourism" was chaired by Angela Chow of Phoenix TV to explore tourism issues. Geoffrey Lipman, Assistant Secretary General, World Tourism Association, described the importance of tourism as a component of economic growth around the world, contributing to GDP, creating jobs, and supporting the stimulus plans for governments. Shao Qiwei, Chairman of the China National Tourism Association, reviewed the impact of the crisis on tourism in China. He reported that international tourism was heavily affected by global financial crisis; however it is also believed to be one of the industries leading the economy out of recession. He catalogued a number of measures the government has taken in China to revive the growth of tourism, and he expressed a strong interest in increasing the level of global cooperation to drive growth in the sector globally.

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International mobility is a key factor for global sustainable development, which means travel and tourism are necessary for the global economy

Similar points were made by Hompo Yoshiaki, Commissioner of the Japan Tourism Agency. Hompo reported that Japan has turned into a "tourism country" in 2008, and embedded a tourism development plan into its national long term strategy. Concrete steps included the creation of a number of special promotional events and the simplification and relaxation of visa requirements. Hompo expressed tremendous optimism about tourism in Asia generally, speaking of the beautiful natural scenery and the large number of unique cultures to be enjoyed by foreign visitors. Thailand has taken steps similar to Japan, according to Pichaichannarong Sastihara, Permanent Secretary of Thailand's Ministry of Tourism and Sport. Thailand has emphasised attractions such as sports, shopping, celebrations, and museums as value added elements of touring in Thailand, and these have achieved good results.

The host province for the Boao Forum, Hainan Island, is itself a renowned tourism destination. Chen Cheng, Vice Governor of the Hainan Provincial Government, joined the panel as well. Hainan is projected to become a world-class resort island, and it has received great support from the central government, according to Chen. And part of the appeal of Hainan is its healthy, green environment. So throughout all facets of infrastructure and entertainment programme development, green and healthy will remain a keynote.



Geoffrey Lipman  
Assistant Secretary General  
World Tourism Association

# Conclusion

An important culminating event of the Boao Forum for Asia Conference 2009 was a special live TV broadcast organised around the major themes of the forum, and entitled "What is Asia's next competitive edge." Hosted by CNBC anchor Martin Soong, the TV debate asked the question: what does Asia do next? The four thought leaders, as Soong described them, dealt with the big issues from a highly strategic perspective.

Asia's future is primarily about jobs. Fan Gang, President of National Economic Research Institute, set the stage by talking about the shrinking of global trade markets, and pointed out this did not mean export was a bad thing. But it did mean that two things are now needed together to fuel Asia's future growth, exports and development of domestic markets. A consensus emerged from panelists that perhaps the most important measure of the successful transformation of Asian economies is the creation of jobs. If work is created, it is good for the economy. Toward the goal of creating more jobs, panelists focused on small and medium sized enterprises and the potential of Asia's service sector. Fan also made the important point that we need to differentiate between short-term fiscal measures to address an acute crisis, on the one hand, and the more sustained economic transformation over the long-term, on the other.

Susan Whiting, Vice Chairman of The Nielsen Company, gave her assessment of consumer sentiment and perspectives on China's recovery project. This was an optimistic story, according to Whiting. Based on their survey work, Whiting believes Chinese consumers show a high level of confidence in the economy, and they think it is a good time to buy, a sentiment that is reflected in steadily increasing household consumption. The survey further indicated that Chinese consumer spending is highly varied and discretionary, leading Whiting to suggest that it is an excellent time for investors to consider expanding of production capacity for distinct, high quality products aimed at consumers. More than half of the consumers surveyed agreed that this was a good time to buy. Having said that, questions asked by the audience subsequently about the amount of discretionary spend Asian consumers would do provoked lively discussion about saving and spending priorities and the difficulties of changing them.

John Rutledge, Founder of Rutledge Capital Advisors and former advisor to US President Ronald Reagan, summarised three of the strong themes from the major panel events - the importance of harnessing the energy and talents of young people, whose innovation skills and creativity would provide important stimulus to growth, and the importance of guiding sufficient financial resources into the SME sectors where they are most likely to make their contributions. Finally, he saw the transformations taking place primarily in the service sector, converting, as he put it, the energy of young people into value in education, entertainment, tourism, and the like.

Xu Xiaonan, a renowned professor at the Chinese-European International Business School in Shanghai, expressed the view that recovery had reached a stage where the government could scale down its investment in industrial inputs and let consumer spending pick up more of the burden of driving growth. He said that the RMB4 trillion stimulus package really did not imply anywhere near that much new spending. Xu saw the key as unleashing consumer spending by increasing consumer confidence and security by addressing.

But, Xu noted, that if China does not change its growth model, 6.1 percent growth in GDP has to be considered a growth recession, even though it would be the envy of most other economies in the world. Among the changes required is a move up the value chain for all manufacturers and accelerated expansion of the service sector. China needs very high growth because of the legacy of concentration on heavy industry, which now no longer has the capacity to create jobs. New kinds of industries are needed to correct the imbalances from this legacy. Fan Gang added that development of the service sector is not itself an easy thing. We see from the crisis that some service sectors, like financial services, can become overdeveloped. And he noted that in recessions, the service sector will often shed jobs faster than manufacturing. Fan argued for balance.



Fan Gang  
President  
National Economic Research Institute

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We need everything, we need service,  
we need manufacturing. We need exports,  
and we need domestic consumption.

Xu said the demand is there, and what the government should do is to deepen economic reform, and release the existing demand. Policy changes would be to let the market play a larger role in allocating capital, and continue to secure all elements of the social safety net so that consumers felt confident to reduce their saving rate and spend. Rather than make more investment directly in the economy, the government should allay anxiety about the lack of a social safety net, which all agreed drives high levels of savings. Fan took the position that citizens of China should not expect the government to shoulder all of the social responsibilities, arguing that China still lacked the resources to do so. He acknowledged that consumers would feel safe if the government covered everything, pensions, healthcare, and the like. But in a population the size of China, it is impossible. Even smaller and wealthier European countries are essentially broke under the burden of their comprehensive social security systems.

In describing what is needed by China in terms of upgrading the economic structure, Fan proposed that doing so should still be based on industrialisation and modernisation initiatives aimed at increased wealth creation, not primarily consumption of social benefits under government sponsorship. Only in that way can China achieve balance between long term goals and short term objectives, according to Fan.

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# What Asia needs is energy, and what I mean is not oil, gas and coal, but the energy of young people....

John Rutledge  
Founder  
Rutledge Capital Advisors

Rutledge also noted the relative lack of institutional support for SMEs that all agreed are important to the future economic model. Fan agreed that the private sector still is not strongly supported, even by stimulus spending, since there is a feeling that public spending programmes should focus on the state owned sector. The audience raised questions reflecting concerns about allocation of capital and the on-going potential for mismatches and inefficiency. Xu reported that 80 percent of small and private enterprises, over 7 million, have no access to financial services, so what is needed is deregulation and diversification of investment sectors. Xu argued that business leaders themselves would be the most efficient allocators of capital in the system.

Rutledge said that many people misunderstand markets and think markets are there to help. But markets, according to Rutledge, are there to "kill you" if you do not use resources efficiently and compete effectively. Again the balance point between the role of government and the role of markets came to center stage.

And the formal part of the Boao Forum for Asia programme ended on that note.

In the months following the Annual Conference 2009, the Chinese government's policy guiding recovery has remained steady. Quarter by quarter, GDP growth has approached the annual target of 8 percent, and several external rating agencies are now projecting GDP growth in China for 2009 at over the 8 percent target figure. Certainly across Asia as a whole there is a confident feeling settling in that the acute phases of the crisis are behind us, and most likely the most severe potential outcomes have been averted.

In the variety of countries represented at the 2009 Boao Forum there was an even greater variety of opinions and viewpoints on the causes and solutions for the global crisis. But there were many important places where views and interests intersected, and consensus emerged. First and foremost, cooperation among Asian nations will be essential in navigating the crisis, and part of that cooperation is to work toward more open borders for trade and investment. Secondly, perhaps the most important measures of successful economic transformation will be seen in numbers related to job creation and quality of life, and that implies not only growth but balanced, well-distributed, and green, healthful growth. Thirdly, the talent and energy of Asia's youth must be mobilised, and that is perhaps best done by increasingly deregulating the activities and finances of small and medium sized enterprises, the major service sectors, and the financial investors who support them.

Finally, there is a great shift of wealth and focus from West to East, and Asia has an opportunity and even the responsibility to lead the rest of the world from the crisis to a more stable and sustainable global financial and trade system. This reality is not only changing the composition of most key international economic organisations and trade meetings around the world, not only changing the tone and content of international economic diplomacy, it is also changing the way leaders of Asian governments think of their roles and the range of possibilities they can envision for the countries and their peoples in the future.

Yet, there is much that remains uncharted, many challenges that lie ahead, and many discussions and forums in the future to continue to explore and refine these issues. As the final session made very clear, Asia as a whole and the diverse nations that make up Asia are still very much in the midst of deep restructuring and transformation. They are all still "feeling the stones" on their way toward the future.

# The Boao Forum for Asia Annual Conference 2009 Agenda

## Friday, April 17

15:30 - 17:30	Young Leaders Roundtable: Leadership In a Time of Crisis
16:00 - 17:30	China's Real Estate Market
20:30 - 22:00	How the Markets Can Drive Asia's Recovery

## Saturday, April 18

08:30 - 09:30	Imagine-Asia: Tapping into Asia's Creative-Industry Potential
08:30 - 09:30	Another Winter for Internet? – Driving Growth Through Innovation
09:30 - 10:30	Contemplation and Communication in Search of the Value Consensus in Asia - Boao Asia Contemporary Art Salon
11:00 - 12:30	Opening Plenary: "Asia – Managing Beyond Crisis"
12:45 - 14:15	Luncheon hosted by Hainan Provincial Government
15:00 - 16:30	Reform the International Financial System: the Role of Emerging Markets
15:00 - 16:30	Doha Round: Leading out of Crisis
17:00 - 18:30	Balancing Financial Innovation, Openness and Oversight
17:00 - 18:30	SME Strategies: Attracting Talent, Securing Financing & Achieving Growth
19:00 - 20:30	Dinner Session: The U.S., Asia and the Future
20:30 - 22:00	Deloitte Cleantech Soiree: A Cleantech Future and the Future of Cleantech
21:00 - 22:30	Boao Salon: Social Entrepreneurship

## Sunday, April 19

09:00 - 10:30	Price Fluctuations and Emerging Market Strategies
09:00 - 10:30	Managing in Periods of Volatility
11:00 - 12:30	Private Equity & Venture Capital: Opportunities in Emerging Markets
11:00 - 12:30	Best Practice of Doing Business in Emerging Markets
12:45 - 14:45	Luncheon Session: Time for a Green New Deal?
13:00 - 16:00	TV Forum: The China Factor in the New Globalized Era
15:00 - 17:30	International Financial Crisis and Cross-Straits Financial Cooperation
15:00 - 16:30	Financial Crisis and International Tourism
17:00 - 18:30	Boao TV Debate: The Next Competitive Edge of Asia

# About Boao Forum for Asia

As a non-government, non-profit international organization, Boao Forum For Asia (BFA) is the premier forum for leaders in government, business and academia in Asia and other continents to share visions on the most pressing issues in this dynamic region and the world at large. The forum is committed to promoting regional economic integration and bringing Asian countries even closer to their development goals.

Initiated in 1998 by Fidel V. Ramos, former President of the Philippines, Bob Hawke, former Prime Minister of Australia, and Morihiro Hosokawa, former Prime Minister of Japan, Boao Forum for Asia was formally inaugurated in February 2001. Countries across the region have responded with strong support and great enthusiasm, and the world has listened attentively to the voice coming from Boao, the permanent site of the Annual Conference of the forum since 2002.

## About Deloitte

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As early as 1917, we opened an office in Shanghai. Backed by our global network, we deliver a full range of audit, tax, consulting and financial advisory services to national, multinational and growth enterprise clients in China.

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