

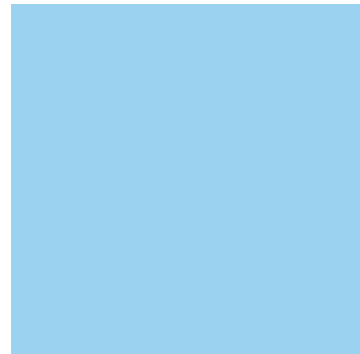
## *Asia in the Changing World:*

*Moving Toward Sound and Sustainable Development*  
变革世界中的亚洲：迈向健康与可持续发展

Boao Forum for Asia

# Annual Conference Report 2012

博鳌亚洲论坛2012年年会报告





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Government leaders and some members of the BFA Board attending the Opening Plenary

# Preface

The Boao Forum for Asia (BFA) Annual Conference 2012 (31 March - 3 April 2012) opened during a global situation that was quite different from previous years. The severe phase of the global financial crisis was past. China and Asia as a region had avoided a regional crisis, and, to the contrary, had emerged as growth leaders and drivers of growth for the rest of the world. Meanwhile, much attention was focused on Europe, especially Mediterranean Europe, where a sovereign debt crisis was occupying the leaders of the entire Eurozone. At the time of the Annual Conference, the UK and Spain had not formally dipped into a recession, all forecasts concurred that Europe would struggle to achieve any growth, the US would continue to maintain a modest level of growth, and China and the rest of Asia would continue a rate of growth that paced the world.

China and the Asian region as a whole are of course not without challenges, and these include a necessary slowdown in the growth rate of the fastest growing economies, deferred investment in environmental protection and remediation, and a complicated brew of energy price volatility, energy security, and carbon worries. Acknowledging both the successes of Asia since the global financial crisis and the challenges that Asian leaders currently face, the BFA Annual Conference 2012 quite naturally was organized around issues of sustainability.

Accordingly, the theme of this year's Annual Conference was "Asia in the Changing World: Moving Toward Sound and Sustainable Development".

In 2011, the five political leaders from Brazil, Russia, India, China and South Africa (BRICS) participated in the BRICS summit immediately prior to the BFA conference, and most of the leaders carried the news and enthusiasm from that summit to the Opening Plenary session of the 2011 conference. This year, the BRICS leaders held their summit in Delhi, again a few days before the BFA conference, and again progress was announced in several areas of trade and investment cooperation and was often referenced during the events. The connection between the BFA Annual Conference and other major summits and discussion platforms is a testament to Asia's increasingly significant role in the global economy.

As the BFA ventures into its second decade, Asia faces many new challenges. Since many of the Asian countries are interconnected and together play a crucial role in the global economy, it is necessary for leaders to convene to discuss their views and strategies, in order for Asian countries to continue to prosper in an ever-changing world.

Zhou Wen Zhong  
Secretary General  
Boao Forum for Asia

# Introduction

This report is based on the major topics of the conference and synthesizes the information presented along with other relevant data and insights. The response to each year's conference provides the foundation for the next year. For those unfamiliar with the format, the Annual Conference begins formally with an Opening Plenary session, which this year featured Vice Premier Li Ke Qiang and several other major national leaders from around the world. This is complemented by nearly 40 sessions, which include panels, roundtables, keynote addresses, workshops, and conversations with global thought leaders in which the major themes are explored and debated.

The wide-ranging topics of the panels, workshops, and dialogues reflected not only an expansion of the size of the Annual Conference but an expansion of the scope of issues and geographies. Various discussions focused on China, on Asia as a region, on the BRICS and their mutual agendas, and the relationships between China, Asia, and the BRICS and the mature economies of North America and Europe. As explained by Vice Premier Li Ke Qiang in his opening remarks, the Annual Conference has grown into an extremely important annual event, and leaders from around the world convene to explore China and its relationships in Asia, and then Asia itself and its relationships with the rest of the world.

Attendance at the 2012 Annual Conference broke all previous records, and more media from around the world converged on the island to cover the events than ever before. The greatly expanded participation of media promises to increase the influence of the Annual Conference, its discussions, and its findings globally, consistent

with the increased importance of the regional economy in global developments.

## The Opening Plenary

Nearly all the delegates attending the Annual Conference convened in the central conference hall to attend the "Opening Plenary" session. On the podium was a select group of government and business leaders from East Asia, Central Asia, and Europe.

The Annual Conference 2012 was officially opened by Zhou Wen Zhong, Secretary General of the BFA. Secretary General Zhou briefly reviewed the history of the Annual Conferences in Boao, and he explained the special timing and importance of this year's conference. His formal opening was followed by welcome remarks from Yasuo Fukuda, Chairman of the BFA Board of Directors.

In his major keynote speech, Vice Premier Li Ke Qiang's remarks were far-ranging and comprehensive, touching many of the topics that would be explored in depth over the next several days of panels, speeches, and workshops.

Vice Premier Li began by reviewing the remarkable growth of Boao itself, developing from a fishing village to become a major platform for people to exchange views on issues important to Asia's development. He noted that the BFA has grown in importance alongside the development of Asia and China. Its global reach reflects how deeply connected China and Asia, and Asia and the world have become.

Setting the tone for the entire Annual Conference, Vice Premier Li focused on the speed and depth of



Yasuo Fukuda  
Chairman  
Boao Forum for Asia



Zeng Pei Yan  
Vice Chairman  
Boao Forum for Asia

change, technological and financial, in the wake of a long and arduous recovery from the global financial crisis. That recovery is still in process, he argued, and amidst this sustained recovery, emerging economies have displayed more resilience and are playing a rapidly growing role. Noting that Asia has the largest number of large emerging economies, Vice Premier Li said that Asia now accounts for more than 30 percent of global GDP.

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## Vice Premier Li paid tribute to the strong historical cultures of Asian countries, but he emphasized that Asia is at a new starting point, with the resilient and enterprising people of Asia now working together to create a new era of sustained prosperity

He expressed China's strong commitment to work together with other Asian countries toward that goal, and he detailed five keys to success.

Firstly, every nation must strengthen its own internal economic development by balancing growth factors and expanding domestic demand. With 45 percent of the world's population in Asia, accelerating internal development is an essential step in overall regional development and prosperity. Along with strengthening domestic demand, Asian nations should tap into their large cohorts of scientists and engineers and work to improve the quality and productivity of their labor.

Secondly, Asia should remain open and inclusive. Invoking the theme of inclusiveness, Vice Premier Li echoed Annual Conference 2011, in which inclusive development was the organizing theme. He strongly emphasized the need for openness, noting several times the inevitable requirement for Asia to have sound and sustainable development. Openness in this sense involves major efforts in communication and coordination to address the big regional and global challenges. These include climate change, food, energy and resources



Li Ke Qiang  
Vice Premier  
State Council, The People's Republic of China

security, and other global challenges, as well as adjustment and reform of the global governance structure and international financial system.

Thirdly, Asian nations need to strive for win-win situations, with practical and concrete cooperation through trade liberalization and investment facilitation. The results of such initiatives in recent years have been good and need to continue.

Fourthly, Asia needs to continue to focus on working together peacefully and harmoniously. While acknowledging the deep historical differences among Asian civilizations, Vice Premier Li said that in pursuit of a peaceful, united, and harmonious Asia, all Asian peoples could be likened to passengers traveling in the same boat.

Finally, and importantly, Vice Premier Li stressed the significance of maintaining a peaceful and secure development environment. Differences will persist, but Asian nations can only achieve their long-term sustainable development interests if they seek maximum convergence of interests. He called for the greatest effort to maintain friendly relations, respect history, and abide by the basic norms governing international relations. In making such an effort across Asia, nations will be able to solve problems through dialogue, consultation, and peaceful negotiation, benefiting the region and the world.

### "Opening Plenary" session summary

Sound and sustainable development is the key focus of this year's forum. Emerging economies will play a greater role in the aftermath of the global financial crisis. Growth will require open, sustainable, and peaceful development. Government's task is to create a civil society in which all people can engage in activities favorable to growth.

In the concluding section of his Opening Plenary presentation, Vice Premier Li clarified China's future roles and commitments to achieving the goals of sustainable development for the region. China, he noted, is the largest developing economy in the world, and it is closely integrated into the development of Asia as a whole. China is the largest trading partner of many Asian nations, and intra-regional trade is the fastest growing in the world.

This line of discussion led Vice Premier Li to a succinct review of China's internal priorities and strategic adjustment plans, the keys to which he noted were increasing domestic demand and accelerating urbanization. To address imbalances in development, China will continue to implement such projects as employment support, social housing, full coverage of health care and large-scale poverty alleviation. The purpose of these key points of focus is to make steady progress in China's modernization drive and bring benefits to the entire population.

As a final comment, Vice Premier Li stressed that reform and innovation have provided the driving force for continued economic and social development in China, crediting them for the remarkable progress in China's development over the past 30 years and more, and its significant strides forward in modernization in the 21st century. He said that China had entered the most critical stage of reform, and in the coming years will extend reforms of the fiscal sector, including taxation and government investment, financial sector regulation and practice, price management, income distribution and enterprise management and finance, endeavoring to make breakthroughs in key areas and the links among them. These include bringing into better play the market's fundamental role in resource allocation and advanced institutional, technological, and management innovation in an all-round way.

Underscoring Vice Premier Li's observation that the BFA had grown in global importance, Prime Minister of the Republic of Italy Mario Monti discussed one of the world's most important topics of the day, the European sovereign debt crisis and the urgent need to restore stability to EU financial markets and the Euro. Prime Minister Monti gave Italy's perspective on what is needed to achieve sound and sustainable economic recovery on its own part. He spoke reassuringly of the progress Italy had made and expressed the view that a serious crisis had been averted. On its current path, Italy expects to balance its budget



Mario Monti  
Prime Minister  
The Republic of Italy

by 2013 and aims to do so independently through a basket of reforms. The benchmarks for success would be rebalancing the interest rate spread and the restoration of foreign direct investment into Italy.

Other important Asian leaders, including Prime Minister of the Republic of Kazakhstan Karim Masimov and Prime Minister of the Islamic Republic of Pakistan Syed Yusuf Raza Gillani spoke of conditions familiar to their respective nations and the singular importance of Asia's continued integration and development in these regards. Different local challenges specific to the local conditions and development needs of Kazakhstan and Pakistan were described, especially the need to maintain peaceful and stable environments for development and the need for capital to support key infrastructure and industrial development projects.

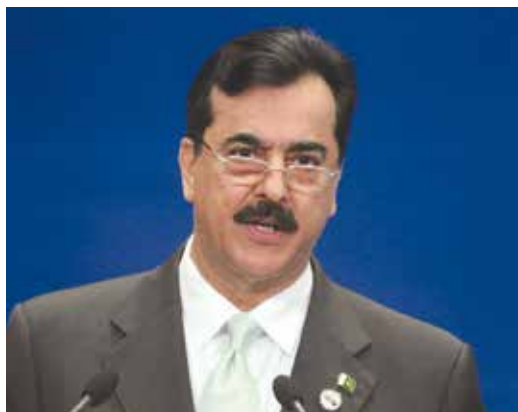
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**All the government leaders emphasized that the improvement of their citizens' lifestyles was an overriding goal, and shared their commitment to pursue development in a way responsible to the needs of global climate, resource, and financial stability**





Karim Masimov  
Prime Minister  
The Republic of Kazakhstan



Syed Yusuf Raza Gillani  
Prime Minister  
The Islamic Republic of Pakistan

Industry contributors to the Opening Plenary session this year included Par Ostberg, Executive Vice President of Volvo Group, who shared a report on his company's extensive investment and success in Asian markets. Ostberg reported that his company achieved 24 percent of their sales in Asia, with only Europe accounting for a larger share. Yuan Ren Guo, Chairman of Kweichow Moutai Co. Ltd, reminded attendees that Asian enterprises have prospered on the model of open development and that a changing world calls for innovation-minded companies. Moutai represents one of China's most valuable brands, and Yuan's remarks provided an example of how Chinese enterprises were maturing in the course of the reform process. Andrew Forrest, Chairman of Fortescue Metals Group Limited, highlighted the importance of creating a civil society that

allows people to work, produce, and give back, multiplying the benefits to all. As a resource company that has been very active in China and Asia for decades, Fortescue is well aligned with the goals expressed by the Asian government leaders who spoke at the plenary with a focus on quality of life and sustainable development for the benefit of societies across the region.

Both in substance and style, the Opening Plenary for the Annual Conference 2012 created a strong focus and momentum for the activities that followed. That was acknowledged by Secretary General Zhou Wen Zhong in closing the plenary session and opening the robust and multifaceted program of the 11th session of the BFA Annual Conference.



# The global context - certainties and uncertainties, and the fundamentals of sustainable growth

The contrast between the 2011 and 2012 conferences' panels and workshops on the global financial situation and system was very evident. Even though China has targeted a slower growth rate than in recent years, the globe-pacing rates of growth across Asia are well-established and generally expected to continue. The inter-relatedness of economies around the world is well understood, as is the kind of policy direction governments must take to improve global cooperation and stability. Nevertheless, in every major economic bloc, there are serious stresses, resulting in a high level of uncertainty. In addition to the bloc-by-bloc uncertainty, exactly how the dynamics of globalization will function in connecting the successes and challenges of one bloc with another remain uncertain.

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## Some issues that were top-of-mind for participants include the role of the RMB abroad, the importance of regional economic development in Asia, and the changing business environment

Global economic challenges and uncertainty remain, and that means we are witnessing a series of both positive and negative signs, with positive and negative reactions in global capital and currency markets. Sharp shifts in the value of the Euro are an example of this, with weekly changes in direction against a backdrop of leadership change, public demonstrations, European Union (EU) debates, European Central Bank actions, and comments by important leaders in the bloc. Some of the impacts at the global level are obvious - such as reduced export demand and capital market volatility. But others remain unclear, such as the ultimate impact on investment flows, commodity demand and pricing, and potential of protectionism and trade disputes.

Amidst the uncertainty, there have been positive signs in the past three months, including a number of major agreements in the EU, improvement and strength in US capital markets, as well as improved consumption and employment figures in the US. There are some better-than-expected indicators from France and Germany, and the BRICS have reached agreement on a number of new initiatives for bilateral cooperation. China and Japan have reached an historic agreement to expand trade in their own currencies, and China has opened its central government bond market to a specific level of Japanese investment, a necessary step in the growing importance of the RMB internationally.

As economic interdependency spreads and deepens globally, and as business and political issues become increasingly global, structural challenges facing individual national governments are becoming more evident. During the session "Dialogue with Zoellick", Robert Zoellick, Former President of the World Bank, discussed the outlook for the global economy, and emphasized the future role of China and the wider Asia region, as well as the factors likely to affect these economies.



Robert Zoellick  
Former President  
World Bank

The financial crisis, according to Zoellick, has been mitigated over the past six to nine months through use of extraordinary monetary policies to avoid the 'tail risk', a series of events in the late stages of recovery that could set the global economy back in a very serious way. Yet monetary policies are only a temporary rescue solution. Governmental structural reforms are needed, and promotion of international trade remains important. In considering globalization versus de-globalization, governments must be proactive when managing the benefits and costs of globalization and ensure that trade, commerce, and industrial policies, as well as education systems, are up-to-date.

Since the global financial crisis, discussions have focused on the need for systematic reforms. International cooperation will be the foundation for systemic reforms, yet the series of regional crises, especially in the EU, have somewhat distracted the G8 and other major forums from cooperation in the longer-term task of global financial system reform. Still, some but not enough progress is being made on key issues such as better coordination among the US dollar, the Euro, and the RMB, measures to bring more rationality to commodity markets, and more efficient ways to resolve relatively minor trade disagreements. Progress toward common standards of financial reporting has also been slower than expected or desired, which is having a measurable impact limiting access to some important global capital markets and leading to a softening of investor enthusiasm around the world.

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**Asian economies need to be ready to face the impact of a prolonged slowdown scenario in European economies, and their readiness will be a key element in sustaining their own growth**

The early stage growth of an emerging economy, whether in Asia or elsewhere, is always export-driven, through either resources, as is the case of Africa, or manufactures, as is the case with lesser-developed Southeast Asian countries. When and how to transition from an export-driven growth and infrastructure-driven model to a domestic, household demand-driven growth model remains a subject of intense interest. China is at the center of this debate, not only because of its size and importance to the global economy but because China has been very clear in its goal of making this shift. It is integral to the 12th Five-Year Plan and a part of every major leadership address.

#### **"Dialogue with Zoellick" session summary**

Over the past six to nine months, countries have used an extraordinary set of monetary policies to avoid the 'tail risk', a series of events in the late stages of recovery that could set the global economy back in a very serious way. The policies have focused on macroeconomic stability, as countries try to deal with their fiscal problems, their overspending and their debt. Trade liberalization remains key to driving growth across all regions. The Eurozone debt crisis should be contained as long as Spain and Italy can stick to their reforms. Asia has a difficult set of factors to navigate if it is to maintain its strong growth rates and achieve high income status.

For every nation in the world, there is no more important question in the pursuit of sustained growth than how to manage, balance, and transform its drivers of growth according to its stages of development, specific national characteristics, and the state of the global economy. It is also important for the maintenance of harmonious economic relations with major trade and investment partners. As we have seen around the world since 2008, growth drivers are not completely free choices of governments, but are impacted positively and negatively by the buying power and policies of key export markets, commodity supplies and pricing, and the intensity of competition for global market share in any given sector. For every nation, a key question is what they can control of their own growth model and how they can best do that.

Currency has been a major discussion topic of the past few conferences, especially since the global crisis and the concerns about the US dollar were raised. Looking back a few years, there was interest in a proposal to the International Monetary Fund (IMF) by Zhou Xiao Chuan, Governor of the People's Bank of China, for an alternative trading currency, detailing a special drawing right that would be managed by the IMF. Since then, the RMB itself has become increasingly important in cross-border trade.

The discussion around the RMB is shaped by China's clear commitment to expanding the currency's international role, for several reasons. What China is attempting is an unprecedented blend of international exposure and domestic control. The acceptance of the currency outside of China has been strong, in Hong Kong banks, corporate and sovereign bond markets, and prospectively Hong Kong, Singapore, and London equity markets. And, as mentioned above, China has reached an agreement with Japan that will put the RMB into a more active role in the large China-Japan trade flows. China includes the RMB in major trade negotiations, offering to many trading partners large credit facilities in RMB, aid, or reserve backing. Many believe the currency has reached a point of market equilibrium, and, for the foreseeable future, we will see normal fluctuations around a stable price point. On the other hand, others continue to argue that the RMB is undervalued.

Henry Paulson, Former Secretary of the US Treasury, argued that for China's RMB plans to be successful, and indeed for China's growth to be sustainable, more market input into the exchange rate for the RMB and a decreased role of the state in deploying currency management tools would be in the best interest of the Chinese economy. In fact, more windows are being opened on a steady basis to facilitate cross-border use of the currency. For example, Shanghai's proposed Qualified Domestic Limited Partner (QDLP) initiative would permit an on-shore RMB fund raiser to pass funds to an overseas hedge fund for investment abroad. Other examples include the mini-QFII program, the window to use Hong Kong-raised RMB to meet Mainland Foreign Direct Investment (FDI) requirements, and the recent discussion about permitting Wenzhou citizens direct access to overseas investment opportunities.

While the RMB is not freely convertible, in its role outside the Mainland it is exposed to market pressures, and its value has actually held to a steady band for the last five months, without market pressure to move outside the band established by the Central Bank. Still, as some participants noted, in an election year in the US, there is likely to be as much politics as economics in the key discussions and positions.

The discussion around the Euro is shaped by the many uncertainties in the EU. Recent media reports have noted that several European countries are either in or on the brink of part two of a double-dip recession. The largest economies have reached agreement to support substantial bailout funds, but that has not entirely resolved the crisis. As Prime Minister Monti noted in his plenary address, Italy has taken the necessary steps to stabilize its deficit and debt problems. But Greece remains very uncertain, and the Euro as a global currency is being impacted by speculation that Greece may withdraw from the EU, or at least from the Euro. Spain and Portugal remain uncertain, and funds from the European Central Bank to resolve the crisis in so many economies at once may not be sufficient. The most recent news from Europe has been good on the shared commitment to deal with the crisis in an orderly manner, and that has proven to be a contribution to the stability of global financial markets.



Henry Paulson  
Former Secretary of the US Treasury

The discussion around the US dollar is shaped by the steady but somewhat weak recovery of the US economy. Over the 2009-2011, the US dollar has been a point of concern around fears that it would lose value precipitously because of the US deficit and the deployment of quantitative easing in the process of stimulating growth. Another round of major bank losses and the slow process of revising banking regulations have not helped. But in fact the US dollar has held up very well, and the US markets remain the major safe haven for investors around the world. All markets in the US are at multiyear highs, and property markets are showing clear signs that they have bottomed out and are likely to trend upwards. While government spending has been tightly curtailed, private sector spending and consumer credit are improving. As a result, even though interest rates remain very low, more foreign money is being drawn into the US, into capital markets, real estate markets, and for mergers and acquisitions.

The conference sessions that looked at global issues and issues of sustainability raised other specific topics about Asia.

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## Many observed that Asian nations must continue to integrate themselves with the rest of the world, particularly in respect of global economic governance

It is apparent that key international economic organizations have been dominated by North American and European nations, and much of the current global trading system developed on their watch. With Asian nations now outpacing the developed world in growth rates, empowering massive consuming populations with more and more spending power, and becoming powerhouses in intra-regional and global trade, that situation will change. But to achieve productive change, Asian nations themselves must step up to the responsibilities inherent in global roles.

Another key issue returns us to the discussion of domestic consumption as a component of growth. As the region develops, Asia needs to move to a model of increased domestic demand in order to maintain its high growth levels. Nations less developed than China will face a more difficult export situation than China did early in its reform era, because of the current global situation and slow growth outside Asia. That makes Asian markets more important to them and ties to two important themes about sustainable growth in Asia.

The first of these important themes is increased urbanization, a clear demographic trend globally that will continue as we move further into the 21st century. It is a highlight of China's future development plans, with the goal of doubling the historic urbanization rate. Urbanization increases household wealth by moving households into the urban industrial and commercial economy. It also increases national wealth by creating demand for more housing and infrastructure. And it drives rapid improvements in education, literacy, financial competency, and related skills that are essential to a modern society. Urbanization draws excess labor out of the rural economy, encouraging consolidation and mechanization of agriculture, which has benefits for farmers and for the consuming public as a whole. In other words, urbanization is a theme around which many key requirements of a sustainable growth model can be discussed.

The other theme is regionalization of Asia. Regional integration is crucial in Asia, as in the rest of the world, for promoting growth. With weak export markets in Europe and North America, and the real danger of another crisis in other parts of the world, or the danger of growing protectionism, the Annual Conference participants consistently agreed with Vice Premier Li's Opening Plenary session observations and emphasized the importance of developing win-win trade and investment relationships within Asia. This is a process that has already shown considerable achievements through the hard work of Asian national leaders.

Beginning at the turn of the century, many Asian nations accelerated their work on free trade agreements, some with global reach but concentrated on the Asian region itself. Trade in the region has become reasonably balanced, and there is a very high level of complementarity among nations that are rich in resources, agriculturally productive, or manufacturing advanced. With China's labor and other factor costs increasing, supply chains are likely to regionalize, and some products that are no longer competitive for China to make and export have already seen production facilities move to lower cost nations. As a result of the policy achievements and fundamental complementarity of Asian nations, trade within the bloc is growing faster than trade between the bloc and the rest of the world.

Logistic improvements are underway, and the spread of the RMB as a potential Asian trade settlement currency supports this trend. New port facilities and rail links are planned or under construction that will provide greatly improved cross-border movement for goods in both directions.

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**Global financial investors and MNC operating companies are increasingly seeing Asia as an integrating region, and the data show that more financial investment is being spread more evenly across the Asian region**

If the significant challenges can be overcome then Asia nations, one and all, can lay a solid foundation for future growth. There will be real difficulties as many Asian countries look to make the step up from middle income to higher income economies; maintaining high growth as economies get closer to this goal will be a demanding task. Among the risks that were raised and need to be mitigated was the so-called "Middle Income Trap". Several experts identified the phenomenon as the failure of a country to move beyond the creation of a small, middle class cohort, both failure to expand the middle class from a total population perspective and failure to support increasing wealth and consumption among existing middle class families. A clear sign of the middle income trap is when urban, middle class families begin to feel they are losing ground to inflation, taxes, environmental degradation, and other burdens that reduce their spending power and quality of life. Another is an increasing rather than decreasing gap between rich and poor and between developed and relatively undeveloped parts of a country.

The "Middle Income Trap" is the result of great success in the early stages of economic reform and modernization through the export and resource advantages that early growth stage economics have, followed by the failure to make the systemic changes necessary to sustain growth. These changes are manifold, including policy changes such as the regulation of financial services and taxes, ownership and property rights changes, improvements in the commercial environment, increased investment in social infrastructure, and improvements in institutions such as the judiciary.



GDP growth targets are always a topic in major Annual Conference discussions, and this year they proved to be rapidly moving targets. India had already shown some major signs of slowing down, and by 2012 Q2, China's slowdown appeared faster than what was anticipated. But in many key ways, GDP growth was not the main focus of the discussions. Rather, the main focus was the commitment of Asian business and government leaders to keep their economies on track to serve their people, and to support the steady improvement of the quality of life of their citizens.

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**As important as GDP growth targets were, more important were concerns over poverty alleviation and resolving the severe maldistribution of wealth that is characteristic of emerging economies**

As a result, cooperation was a more important theme than competition, and the concept of shared benefits was very strongly resonant throughout the Annual Conference 2012 events.

# Public and private sectors and the market environment

In the early days of reform, Deng Xiao Ping and other leaders identified the Chinese reform model as a Socialist-Market Economy. This required a definition and protection of private property rights, and it saw a very fast emergence of a robust private sector made up of millions of small "mom and pop" businesses, ranging from farmers' markets to retail shops, from beauty shops to repair businesses. The work, however, was ongoing to primarily refine the concept of what should be state-owned and what should be private. Premier Wen Jia Bao's recent public remarks on the large state-owned banks remind us that this continues to be a work in progress.

Overall, opportunities to develop the private sector in Asia are very important. The potential is strong, and it is key to sustainable growth, faster job growth, and innovation. But in reforming emerging economies - all different in their particular local conditions - a common theme is the challenge of private enterprise to get growth capital, to acquire and retain talent necessary to build organizations adequate for their market opportunities, and to cross the threshold from a one person, entrepreneurial organization to a professionally managed medium or large national enterprise.

Further development of the private sector is crucial to success in the region. Development models in place in diverse Asian countries present different challenges for both businesses and governments. In China, for example, the relationship between the large state sector and the private sector stimulates important discussions among China's domestic entrepreneurs and among foreign investors. These discussions look at permitted and prohibited areas for private and foreign invested businesses, availability of growth capital from large lending institutions, access to domestic capital markets, access to land for development, and relationships with tax authorities, customs, regulators, and others in the government.

## **The role of the private sector in transformation**

These issues for China are largely internal, but important issues exist on the international stage as well. Questions have been raised repeatedly about the financing of Chinese acquisitions abroad and the relationship between public and private resources. Outside Asia this is not an

unknown issue. In some cases, such as European and North American rail systems, there really is no competitive friction because rail systems sit in a particular location. In other sectors, like post and telecommunications, there has been open and sometimes aggressive competition, with some government owned postal institutions moving into competition with private international carriers. Competition has been open and intense, in other areas such as international commercial airlines, automobile manufacturing, commercial aircraft manufacturing, steel making, petrochemicals, aluminum.

In many countries, industries like commercial airlines and automotive were once state-owned, but the dominant trend has been toward privatization. Interestingly, the trend in Europe has been toward the privatization of large commercial entities when they come into sustained competition with private companies. The reason is simple. They often cannot compete with private companies, build up big financial losses, and become a burden on the central government budgets.

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**What is key for Asia, for both the domestic national situations and the cross-border issues, is that the dynamics of globalization and development require the peaceful and productive interaction of different development models**

Ultimately, whether a large-scale enterprise is state-owned or private, it must be commercially competitive and viable, with the sole exception of enterprises supporting critical national security requirements.



There are, therefore, two major challenges: Driving state-owned enterprises (SOEs) toward performance that is truly globally competitive, and creating a regulatory framework and common practices that assure the peaceful and harmonious coexistence of public and private enterprises around the world. How to achieve those two goals, in the form of domestic development, international cooperation, and outbound investment into M&A, was the major theme in discussions of the business environment.

In China, since the very fast deployment of the RMB4 trillion stimulus package in the wake of the acute stage of the global financial crisis, there has been a lively debate about the private sector. The mixed environment of 2009-2011 global economy challenged private enterprises in several ways. Many were focused on exports, and that was the component of GDP growth that was hit immediately and hit hard. Beginning in 2008 Q3 and continuing through 2009 Q2, exports fell at the rate of 20 percent year-on-year, turning around in mid-2009 and rising to a growth rate peak again in 2010 Q1. By that quarter, exports returned to their pre-crisis level, but since that time of robust recovery, the growth rate has steadily declined to the present. The ups and downs of export growth resulted in substantial planning challenges and over-investment in capacity as China moved from a brief growth spurt into the current slow export growth situation.

To maintain progress toward targeted GDP growth rates, the central government stimulated fixed asset investment, especially infrastructure investment, and chose to fund it with credit from the large state-owned banks. The core of China's private sector was not prepared to participate in the new key growth driver, fixed asset investment, nor did it have ready access to SOE bank credit lines. Massive SOE borrowing, which coincided with concerns over excess industrial capacity, pressed SOEs to expand quickly into other forms of investment, primarily real estate and development as well as financial services. The diversification of SOE activity in this period brought them into more direct competition with the private sector than before, especially in key areas such as property development.

Stimulation of the scale China deployed was successful in maintaining world-pacing GDP growth rates, but it was impossible to avoid stimulating inflationary pressures along the way, most evident in real estate. While China's overall economic growth was strong in 2011, the global economic slowdown and ongoing domestic inflationary pressures impacted the Chinese private sector. These conditions created barriers to market access such as securing capital resources, winning tenders for government procurement, and even competing with SOEs in certain sectors. In several BFA real estate sessions, representatives of the private sector expressed the challenges they face competing with state-owned enterprises on critical needs such as winning land use right auctions, where prices have risen dramatically with SOE bidders present.



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Chairman  
All-China Private Enterprise Federation

Many private sector enterprises have their roots in entrepreneurship, and in their early stages of development are realizations of an entrepreneur's dream. However, as they reach significant scale, they must compete with large private corporations, SOEs, foreign invested enterprises, and even government for management talent. In China and across Asia, the competition for experienced management talent that can reliably assume responsibility in second and third tier executive roles has intensified. The "Private Sector Roundtable" at this year's Annual Conference discussed the importance of finding and retaining talent, and of improving business practices and technologies.

In this Roundtable discussion, Chinese government officials, investors, CEOs, company presidents, and other leading figures from the private sector discussed the performance and outlook for the industry, and the opportunities and challenges they face going forward.

Polling of participants during the Roundtable found that about 50 percent thought the squeeze on profitability brought by rising costs would be the top challenge in the coming two to three years. This result reflected the tight margins with which many private enterprises operate and the relative lack of a substantial cash cushion to weather downturns and cost increases. Some 70 percent believed that Chinese private enterprises have to improve their management and efficiency to reach the level of operational excellence necessary for survival.

unique to the sector while others, such as rising oil prices, rising wages, and other inflationary pressures are really challenges for both private and state-owned enterprises. However, the strong government support for SOEs may sometimes make private companies feel that they are at a disadvantage. Currently, SOEs are the domestic market leaders while the private sector remains broadly characterized by a lower end product niche. At the same time, in China, many key private companies of the Large National Enterprise level (LNEs) have been provided substantial support by the government and large SOE banks, for local projects and especially for key overseas acquisitions of resources, technologies, and brands.

The discussions of private enterprise made clear several points. Everyone believes private enterprise has an important role to play in Asia's future growth and the sustainability of desired growth rates. Among the key contributions of private enterprise are job creation, innovation, and strong returns on investment. On the other hand, in times of rapid change and economic stress, governments are inclined to become very active in industrial and commercial sectors, through the agency of SOEs and directly through the detailed management of regulations and capital flows. This can result in interference with some market mechanisms and somewhat lagging support for the most critical needs of entrepreneurial SMEs, needs such as regulatory relief and access to growth capital.

#### "Private Sector Roundtable" session summary

The outlook for the private sector for 2012 remains optimistic, though it must adapt to changes through innovation, branding, growth, and government support to compete with SOEs. The private sector is very important for the future of China and for Asia as a region. Entrepreneurs are focusing on finding and retaining talent, as well as continuous improvement of their management, and innovation processes will be important for its future success.

The Annual Conference discussions touched on many of the other challenges now faced by the private sector. Some of these challenges are



As economies become more complex, so do the needs of entrepreneurs and so do the regulatory and market environments in which they operate. For the private sector to be successful in the future, continuous improvement by the companies themselves and government support are both necessary. From the perspective of the overall shared goal of sustainable development, the health of the private sector is key. Private enterprise entrepreneurs recognize that their future fate requires them to compete successfully in increasingly tough market conditions.

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## Going forward, the private sector needs to focus on innovation, branding, and strong strategies that will support sustainable growth

As private enterprises reach scale in China they face a pair of challenges. Firstly, they must professionalize and institutionalize management, which can rely on a "strongman" entrepreneur only up to a certain stage, and they must put in place a plan for succession. Secondly, when they reach scale, obtaining government support becomes increasingly important, for R&D, market access, overseas expansion, and meeting financial

needs. The importance of private sector success is not to be overlooked in any emerging economy, but sometimes it is difficult to provide a business and regulatory environment that is supportive of private enterprise success, especially when state ownership remains a major component of the business environment.

### Diversifying finance channels

In polling on the market and operational challenges which most concerned entrepreneurs and investors, nearly 40 percent of Roundtable participants believed that the financing environment for Chinese private enterprises had significantly deteriorated in 2011 and nearly 60 percent of the entrepreneurs said they still relied on some form of bank loans. That reaction reflects the reality of SOE dominance due to large state bank lending plus the rapid development of loosely regulated or unregulated financing channels at the local level. In many fast growing cities around China, private enterprises have increasingly relied on extremely high interest lending from local shadow banks, trusts, and credit guarantee companies.

The panel discussion "Informal Lending and Deregulation of the Banking Sector" identified the reasons that these channels have grown so quickly in size and importance, not just in Wenzhou but in many cities with fast growing private businesses. Though there is no shortage of liquidity and financial resources in the economy overall, about 90 percent of small businesses do not have access to formal bank lending due to biases in the structure. Some private businesses are in manufacturing; some are in property



development; some are in support sectors for construction, manufacturing, or retail. Their key constraint on growth is lack of growth capital, so even a high interest option is appealing. Sometimes urgent need for very short-term bridge money forces borrowing at very high rates. High interest rates are clearly not sustainable in highly competitive, low margin businesses, so the financing crisis in the Small and Medium Enterprises (SME) sector has worsened.

### "Informal Lending and Deregulation of the Banking Sector" session summary

China's financial sector is looking at reforming and further opening up. Market demand that was not being met by the large SOE banks resulted in the rapid development of large, unregulated, informal networks of deposit and loan institutions. Additional models for greater diversity in the financial sector will be helpful to fill the gap between demand and supply for loans, particularly for SMEs. China is piloting village level banking in Wenzhou, including private banks and strengthening of rural credit unions and cooperatives.

The financing challenges for private SMEs have been recognized and discussed for several years now, and business leaders were optimistic that funding would increasingly be available for entrepreneurs in the private sector. The large banks have been instructed to create specific programs for SME lending, and major reforms are underway to understand, restructure, and regulate a much broader variety of banking institutions. These include broadening the licensing scope of local banks, cooperatives, and credit unions, and licensing some private banks on a pilot basis. In the meantime, lending rates have dropped significantly in alternative banking channels, in some cases to half their previous levels, as market forces have taken hold and demand for credit has softened. However, as large bank interest rates are still set by the central government, banks have very little flexibility to price lending to risks, so they naturally take the safer path of lending to SOEs. In recent rate policy developments, however, a slightly wider range of flexibility has been given to banks for both deposit and lending interest rates.

With many expanding investment opportunities, SME executives said they feel that the future looks bright for private industry.

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The abundance of opportunities across a variety of sectors means that both the state and private industry can develop and compete together without one harming the other

However, there is a need to open up certain industries so that the private sector can flourish. The biggest opportunity could lie in the financial services industry if the government allows access to this market. Discussions recognized that there is a constellation of financial service sector reforms under consideration, all of which are related to the availability of credit and business opportunities for the private sector. Some were mentioned above, such as private banking licenses. Others include the liberalization of interest rates, and expansion of business scope and flexibility for non-bank lenders and investors.

The Chinese government is currently piloting a program in Wenzhou, which was cited in several discussions. Wenzhou and surrounding cities such as Yiwu have long been recognized as among China's most entrepreneurial regions, and among Chinese cities, Wenzhou saw the most explosive growth of non-traditional channels of capital. Wenzhou also saw the early emergence of severe problems in those channels, problems of liquidity, solvency, integrity, and reliability. On 28 March 2012, the central government held a conference giving the go-ahead to a set of pilot programs for Wenzhou.

There is no debate about the current shortage of lending options. The larger question then, is how to establish a multi-layered financial system. Big banks cannot solve all of the market's lending needs. In addition, small local banks and non-governmental financial organizations are needed, and often these organizations are better at assessing the potential and credit-worthiness of local small-scale borrowers. They can best reach loan agreements with acceptable costs and risks for both lenders and borrowers.

The diversification of channels of capital is, of course, not limited to banks and debt. The role for private equity and venture capital was discussed at the "PE/VC Breakfast Session", where Dai Xiang Long, Chairman of the National Council for Social Security Fund of the People's Republic of China, and Neil Shen, Founding Managing Partner of Sequoia Capital China, discussed the relatively nascent but rapidly growing industry. According to Dai, although equity investment funds have grown quickly in the last few years, there is still not enough investment in such funds to acquire and restructure sectors in an optimal way. China is consolidating various industries; it is a trend identified in the 12th Five-Year Plan. M&A funds offer a chance to assist in the consolidation process, and this likewise presents greater opportunities for M&A fund managers. Dai also stressed the advantages of partnerships for private equity when investing.

Panelists agreed that partnership is the best model for investment in PE funds. Equity investment structures enable cooperation in the funding front-end, in which many investors with complementary interests can participate, and then cooperation among equity investors and their targets in the actual equity acquisition process. It was recognized that Chinese equity investment funds were developing along a somewhat different trajectory than their international counterparts. On the one hand, there was a clear understanding of the role of a limited partner (LP): an LP should not interfere in the management of funds. On the other hand, widely accepted norms, such as a two percent management fee, should not be regarded as an ironclad rule but should be adjusted according to local conditions. Panelists agreed that private equity and China's economic fundamentals are in good shape.



Dai Xiang Long  
Chairman, National Council for Social Security Fund  
The People's Republic of China

Neil Shen (Moderator)  
Founding Managing Partner  
Sequoia Capital China

#### "PE/VC Breakfast Session" session summary

In China, the Social Security Fund has been a major funder of PE, but it alone cannot provide sufficient funds for the needed restructuring and consolidation. Partnership is the best model for investment in PE funds, and the established model of using LPs to fund is good, because investors should not interfere in the management of funds. On the other hand, the typical 2 percent management fee should not be regarded as an ironclad rule.

#### Opportunities and challenges in driving domestic consumption

One strong sector for private enterprises is consumer goods, specifically targeting the Chinese consumer, and ranging from product design and manufacturing services, through manufacturing and distribution, to advertising, marketing, and retail. Over the last decade, Chinese brands have gained great value in the domestic marketplace, and that is a notable success of the private sector. E-commerce, including the sales channels and all the supporting businesses, such as logistics and delivery, has also seen some very strong private enterprises develop, create jobs, and create high enterprise values. Generally, private enterprises have enjoyed their greatest success and made their greatest contribution to the economy overall in addressing the growing demand of household consumers.

To make the private sector more competitive, as the Chinese government and other Asian governments continue to encourage consumer spending, they all share an explicit goal to develop domestic demand. This is not only the sweet spot of private enterprises, it is also seen as an effective way to increase the opportunities and wealth of the poor, both urban poor and farmers.

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## The consensus of economic forecasts sees China growing to be the world's largest middle-class consumer marketplace by 2020, with India in third place and Indonesia in eighth

This is a transformational trend in Asia. As living standards improve, and the population continues to age, a larger market in food, clothing, education, health care, and other industries will bring business opportunities for enterprises. Fast-moving private businesses can flourish in this marketplace as never before, as long as a suitably supportive regulatory and financial environment is provided for them.

Reflecting this, among private entrepreneurs, consumer business leaders have confidence in the market, and they are continuing to build out their domestic supply chains. They see their key future opportunities in the Chinese government's support of increased consumer spending and increasing urbanization. But where competition from outside the domestic private sector is a factor, their opportunity is counterbalanced by the challenge of managing the increasing labor and input costs. Brand recognition and consumer trust are key in the Chinese market, particularly in the luxury and premium markets, and leading consumer businesses are now addressing the opportunity and the challenge of growing brand recognition and market share beyond first tier cities such as Beijing and Shanghai. The

importance of brand value are growing rapidly and profitably in second and third tier cities, across the supply chain, from product development to retail.

As discussions concerning manufacturing cost increases, the complexity of the situation is understood. Rising wages guarantee households have more disposable income to spend on consumption. Furthermore, primarily as a result of rising wages and commodity prices, manufacturers in every category and of all ownership types are experiencing increasing labor costs of as much as 20 percent annually and substantial cost increases in energy, fuel, and basic materials needed for their products.

Manufacturing business leaders see increasing challenges in managing their supply chains, combining a shortage of qualified local talent, an increase in local competition, and reasonable expectations of continued input cost increases. Despite these challenges, they still believe China will remain a globally competitive manufacturing base, and they can successfully manage costs and challenges through investment in expertise, new technology, and productivity and process improvements. Cost management is the primary focus of private entrepreneurs moving forward. The tactics they plan to use all reflect the innovative spirit and genius of private entrepreneurs. They plan to explore the option of outsourcing portions of their supply chain to offset costs. They plan to invest in automation, new materials, and new designs to reduce costs, and enhance functionality and market appeal of their products.

While Asia used to be known as a low-value manufacturing region, as labor and input costs continue to rise, discussion among the private enterprise leaders centered around the importance of introducing current technology and expertise for industries to move up the value chain. Many Chinese private companies are currently weak in supply chain management – which could be strengthened through the introduction of new technologies, outsourcing and improved management tools, such as IT and Enterprise Resource Planning (ERP) systems.

### Outbound direct investment

In his assessment of the many diverse and broad-ranging points made by business leaders at the "China CEO Roundtable", Robert Kimmitt, Chairman of the Deloitte Center for Cross-Border Investment and Former Deputy Secretary of the US Treasury, focused on China's outbound investment, the focus of a government "go out" campaign, now more than a decade old. Kimmitt saw several resulting impacts from the Chinese government's continued focus on driving up its overseas direct investment (ODI). It will contribute to balancing foreign exchange reserves and moderating the recent rapid growth in the foreign exchange market. It will grow opportunities for enterprises to take RMB, from whatever source, and convert to US dollar to invest overseas.

Chinese policies and Chinese companies will therefore be increasingly important factors in global capital flows, increasing the country's leverage in key international economic organizations and in global rule-setting. Kimmitt also argued that expanding Chinese investment abroad would lead to a higher level of "reciprocity," which will create productive pressures for trade and investment neutrality, in which China will move toward equal investment and trade access on a fair, commercial basis.

In China, there is continued discussion about outbound investment. Its importance is not debated, but reviews of past performance are mixed. Many financial and strategic investments have underperformed their forecast models, and China, being relatively late to the global investment marketplace, has often found itself investing in relatively high risk environments. As we will discuss below, a special interest in building strong bilateral relationships with other BRICS nations also guides China's outbound activity. Chinese enterprises that are extremely successful at home are challenged with the unfamiliar



Robert Kimmitt  
Chairman, Deloitte Center for Cross-Border Investment  
Former Deputy Secretary of the US Treasury

operating environments of foreign countries, and they are only gradually learning to use legal, financial, and public relations advisors, who are essential to success abroad. But there are clear indications that Chinese outbound investors made significant progress in 2011 expanding their range of acquisitions beyond the focus on energy and minerals that has dominated outbound investment for the last decade.

#### "China CEO Roundtable" session summary

The RMB will continue to become increasingly important worldwide. The government is piloting other outbound channels to mitigate the accumulation of more Forex. Diversification of financial services is inevitable, and foreign financial services institutions will assist continuing market reforms. Policy intends to shift China's growth model to dependence on household consumption. Though labor and input costs continue to rise in the manufacturing sector, technology and productivity gains can maintain competitiveness. Consumer businesses are optimistic because of government policy and urbanization and are already thinking ahead to build their brand in second and third tier cities.

Trends in investment flows in the other direction, inbound FDI, are also changing and are also crucial. China has historically dominated FDI into emerging economies, but so far 2012 has seen a significant decline in FDI and a slight decline in ODI. Total Chinese investment abroad remains relatively small and highly focused on energy and mineral resources. Many Chinese companies began to look abroad some years ago, but they encountered challenges. However, very recently, we have seen some interesting acquisitions abroad by Chinese buyers in brands, market channels, and operating entities, ranging from food, to entertainment, to industrial goods and technologies.

Looking at reasons ODI has expanded slower than expected, first and foremost, potential outbound investors consistently expressed the belief that the domestic market investment opportunities were more promising than what they could find abroad. Secondly, they frequently expressed frustration at the required approval processes, which included rigorous administrative reviews by several different agencies (some said up to 16 different agencies) to approve the project feasibility, the valuations involved, and the foreign exchange required. In some instances, these reviews made it impossible to compete for hot acquisition targets.

Nonetheless, ODI is growing steadily and will continue to grow. Along with ODI, markets and supply chains by Chinese enterprises will naturally expand. Because of the size of China's domestic market and its fast growth rate, China has a somewhat unique historical situation, with several big enterprises ranking among the world's largest by market capitalization but with operating footprints that are almost entirely domestic. The economic slowdown in the domestic market itself

will power a change. And there are already some notable successes, with companies such as China's IT equipment providers, who have been very successful abroad. The largest providers operate in 100 countries, not only supplying rapidly growing national communication infrastructure but also diversifying their supply chains over broader geographies and expanding their R&D locations to take advantage of talent around the world.

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**As Chinese industries mature, strong opportunities for MNC investment in China are likely to be balanced with opportunities for domestic Chinese companies to invest overseas**

Not only that, panelists identified important examples of cooperation between Chinese enterprises and MNCs in third country investment. For these trends to be successful and sustainable, however, China will need to assume more responsibility and in turn have a greater voice in international institutions such as the World Trade Organization (WTO), IMF, and World Bank.



# Development tier blocs and achieving sustainability - BRICS, E11, and VISTA countries

As we entered 2012, the world was different from the years immediately following the global financial crisis, but it faced no fewer risks and uncertainties. From the perspective of an emerging economy, major uncertainties in the global economy could slow economic growth around the world as a whole and impact the growth of every nation in the world. There is no debate that emerging economies have been significantly impacted by events since 2008, but there was intense discussion at the BFA conference about the future of various blocs that have been defined. Among policy makers and business leaders, the goal of that discussion was to look ahead at ways emerging economies could sustain their growth and improvements in living standards in scenarios where developed economies continued to face slow growth and uncertainty.

To be sure, in the past three months, there have been both positive and negative developments. In the course of ups and downs, solutions to the European debt crisis have been proposed, followed by intensification of some of the target crises, followed by new solutions, expanded bail-out provisions, and the like. There have been EU financial agreements, elections and debates about the shared currency. There have also been better-than-expected indicators from France and Germany. The US economy has improved steadily but slower than expected. The US has seen steady strength in the US dollar and improvements in US investment and consumption, but other key indicators such as employment and housing have alternated between positive and negative news.

In the wake of the global crisis, the most immediate impact on exporting companies was the sharp drop in demand for their exports. In the following months, some of the longer-term impacts began to emerge, including an increase in protectionist tendencies under domestic political pressures, some new impediments to cross-border investment, increased risk in holding sovereign debt and other currencies, and increased trade disputes. Resource exporters enjoyed several years of strong demand and high pricing, but that has recently come to an end with the widespread perception that slow global growth would limit demand for key energy and mineral deposits.

China has long advocated more representation for emerging economies as a whole in organizations such as the IMF, World Bank, and WTO. The BFA has issued publications, clarifying the potential roles of the BRICS and E11 countries, noting that in 2010, 40.6 percent of the world's population lived in emerging economies, but they commanded only 19 percent of the world's GDP. Research on emerging economies also notes they face similar challenges, including strong tendencies toward inflation and serious gaps in wealth distribution. Finally, among issues that need addressing are communication weaknesses and trade frictions that exist among emerging economies themselves.

## Finding common cause

Since the global crisis, emerging economies have strengthened their influence on the global stage, in part by organizing "virtually" in different kinds of blocs, some regional and some non-regional.

The BFA has been instrumental in identifying different ways to think about groups of economies that have a common cause. Originally focused on the countries of Asia and their shared interest, the BFA has also deliberated issues related to the BRICS countries and an extended group of E11, mostly countries in the G20 who are outside the original G7. Very recently, the global media has coined the acronym VISTA, referring to the much more newly developed countries of Vietnam, Indonesia, South Africa, Turkey, and Argentina. South Africa, of course, is included in the expansion of BRIC to BRICS as well.



The development of regional blocs is a clear dynamic of globalization, as developed and lesser-developed economies within a region seek synergies and economic bases of cooperation. China began an energetic series of bilateral free trade negotiations shortly after joining the WTO in 2001, and by 2010, many free trade agreements were active in linking East and Southeast Asian economies. The EU itself constitutes such a regional trade bloc, with a common currency, and of course the North American Free Trade Agreement and other bilateral agreements with the US as a party have tied national economies in the Americas together more closely, trading in the US dollar.

**Table 1: FTA activities in East Asia - 2011**

Country	GDP 2010 (US\$ billion)	Simple average MFN Tariffs (%)	FTAs in effect 2011 (number)	FTA under negotiation/ proposal 2011 (number)
<b>Northeast Asia</b>				
China	5,926.6	9.6	12	12
Japan	5,458.8	4.4	12	9
South Korea	1,014.5	12.1	8	22
<b>Southeast Asia</b>				
Philippines	199.6	6.3	7	5
Singapore	208.8	0	18	17
Thailand	318.5	9.9	11	13

Source: Asia Regional Integration Center (ARIC), World Bank, WTO

Within the framework of global organizations like the WTO, countries with related stages of development have found common ground and have constituted virtual blocs, no matter where they are located. The BRICS group is an active example of a non-regional bloc; the VISTA group is an example of a nascent one.

### **Regional blocs and achieving sustainability – China, East Asia, and ASEAN**

With a number of free trade agreements in effect linking East Asian countries and countries within the Association of Southeast Asian nations (ASEAN), and with the RMB achieving greater prominence as a regional trading settlement and investment currency, progress toward regional integration has become a reality. A regular discussion area at the Annual Conference addresses a key question: What are the right policy steps to assure win-win outcomes in various sectors and at various stages of development?

Panelists explored the strengths and weaknesses of the so-called "East Asian Model" in the context of global uncertainties. Currently, many Asian countries follow this model, an export-oriented strategy with intensive inputs which historically has been applied to Japan and the four Asian Tigers (Hong Kong, Singapore, South Korea and Taiwan). However, the limitations of this model are well-known. In sensitive phases of development, the economies are highly sensitive to economic crises abroad. Often fast development with a premium on export also causes environmental degradation as in-country resources are exploited for financial gain. And finally, perhaps most importantly, the success of such models bears the seeds of their undoing, because as the economies develop, manufacturing cost factors that originally made them competitive as exporters are lost, requiring a major shift in development model.



Looking at East Asia and ASEAN nations, panelists agreed that moving forward Asia needs to adjust its development strategy, expand domestic demand, encourage regional demand, and develop through scientific and technological innovation as well as green development. Additionally, the region would benefit from increased cooperation and synergy to improve overall Asian competitiveness.

Over the years, Asia has participated in several cooperative agreements including ASEAN, ASEAN Plus Three (ASEAN countries along with China, Japan and South Korea), and Shanghai Cooperation Organization (SOC), but regional cooperation is not yet as broad or as deep as in Europe or North America. It is important going forward that these countries continue to work towards creating free trade regions, while ensuring that disruptions from political factors, historical issues, and social systems do not stand in the way of mutual economic benefit. Additionally, Asia must continue to integrate itself into the world, particularly in regards to global economic governance. At present, the region accounts for 30 percent of the global economy, and needs a larger part in shaping the global economic environment through organizations such as the G20.

In the "ASEAN Free Trade Area and Regional Economic Integration" session, a panel of government and business leaders from a number of ASEAN countries discussed the outlook of the ASEAN Free Trade Area (FTA). The session focused on how to achieve a deepened level of integration amongst the ASEAN nations, not only economically but also culturally, socially, and politically, as well as the opportunities and challenges, both internal and external, that the region will face following further integration.

#### **"ASEAN Free Trade Area and Regional Economic Integration" session summary**

The ASEAN FTA was formed to unify a diverse region, with the aim of achieving a common community with shared goals. It is important for all ASEAN members to strive to bridge the wealth disparity between ASEAN countries, and they have laid out ambitious plans for a single market to be in place by 2015. The panelists agreed that following along this path will lead to greater opportunities for all member countries.

Accepting the premise that Asia is in the fast lane of transformation in the post-crisis era and it is becoming the economic center of gravity as a result of the impressive growth levels witnessed over the past few decades, the question arises: Is the endpoint of this expansion an Asian union with its own single market and currency? And if so, can the kind of crisis impacting the EU be averted?

The ASEAN FTA has seemingly started on this route, laying out ambitious plans for a single market to be in place by 2015. Yet, cultural plurality and differing levels of economic expansion characterize the region and have the potential to hinder co-prosperity and prevent further integration. Furthermore, following the crisis in the Eurozone there is a consensus that any integration should involve strong leadership from ASEAN leaders and learn from the lessons of the controversial EU model.

The ASEAN FTA was formed to unify a diverse region, with the aim of achieving a common community with shared goals. Using this as a benchmark, it can be said that so far, ASEAN cooperation has been a success. The panel all concurred that following along this path will lead to greater opportunities for all member countries. The overlay of the China-ASEAN FTA expanded the region and synergies. The panel all concurred that increased integration will lead to greater opportunities for all member countries.

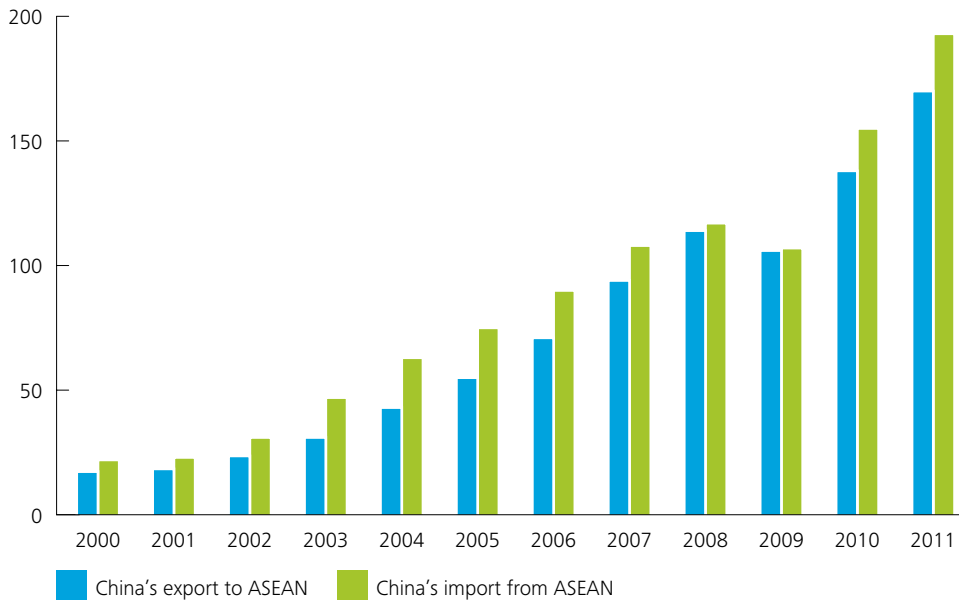
The ASEAN community has not always been characterized by such levels of optimism. When the Association was still in its early stages, discussions centered on the difficulties that member nations would encounter when trying to integrate, primarily due to the diverse nature of the region. Today, as the region's economic prominence grows, it is not only intra-regional integration that is seen as critical to its advance but also the wider integration within East Asia, Asia-Pacific and the global economic environment.

This widening of scope is becoming an ever more prominent factor in the thinking of the ASEAN leaders, with integration taking on a multilayered approach. The ASEAN Plus One (China) and the ASEAN Plus Three (China, Japan and South Korea) agreements are seen as fundamental in securing strong and stable economic growth going forward. In particular, China is set to play a critical role in determining the success of the region. Through China's ability to engage with advanced global powers, especially the US, increased China-ASEAN association can give rise to significant opportunities and benefits for both parties, which would not necessarily be open without the other's presence.

In terms of the closer integration within the ASEAN community, several members of the discussion stated the need to bridge the wealth gap between the nations. The panelists stated that without closing the gap, barriers will remain in place that may prevent a true ASEAN single market from emerging. Part of this path is working to maintain reasonable balances of trade among the nations, something that data indicates is being achieved.

**Chart 1: China's trade balance with ASEAN**

US\$ (billion)



Source: NBSC (1994-2010), China Customs (2011)

In fact, in 2011, China, the most powerful trading economy in the bloc, imported from ASEAN nations more than it exported, a trend that essentially "shares the wealth" with nations in an earlier stage of development



Tun Abdullah bin Haji Ahmad Badawi  
5th Prime Minister  
Malaysia

Increased integration amongst the ASEAN community and in East Asia in general is set to bring a variety of benefits to the region. The 5th Prime Minister of Malaysia, Tun Abdullah bin Haji Ahmad Badawi expressed his opinion that significant value is being gained through a new generation of students returning from programs in other member countries. The cultural awareness and networking skills that they attain will help the future of the ASEAN economic, social and political community. He suggests that these students will become the bonds that bring the ASEAN region closer together.

Assessing the issue of an ASEAN single currency, the Deputy Prime Minister of Thailand Kittiratt Na Ranong expressed his concern that such a move would limit individual countries' ability to respond in times of economic stress. Deputy Prime Minister Na Ranong suggested that during the Asian financial crisis, the one important factor that saved the Thai economy was the floating of the Thai baht, and also stated that retaining this control over its national currency is vital.



Kittiratt Na Ranong  
Deputy Prime Minister & Minister of Commerce  
Kingdom of Thailand



Yu Jian Hua  
Assistant Minister of Commerce  
The People's Republic of China

Although there is consensus that regional integration is desirable, Yu Jian Hua, Assistant Minister of Commerce of the People's Republic of China, maintains that the WTO is still the most important mechanism for the liberalization and facilitation of trade. At present the WTO is in deadlock which enables trade cooperation on a regional level to play a larger role in establishing trade agreements. However, once it is feasible to use the multilateral system of the WTO for trade negotiations, Yu suggests member states should look towards this institution for guidance.

The conclusions reached by the various discussions on the Asia and ASEAN regional blocs emphasized common cause, and the common development challenges faced by nations in the region.

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There was a consensus that regional integration is heading in the right direction, and member states should look to link not only economic issues but also a broader range of social, political, and cultural values

The nations of the ASEAN community, although diverse in many ways, have many similarities, one of them being that they all look set to benefit from deepened integration and cooperation. In terms of development, to avoid the pitfalls of the "East Asian Model," regional leaders needed to nurture innovation and cooperation, use the regional synergies to improve the efficiency of supply chains, develop and deploy technology and expertise, and move up the value chain. The fast growth of intra-regional trade, especially in food and energy resources, was seen as positive, and there was important discussion of the benefits of conducting more trade and investment in a single currency, presumably the RMB.

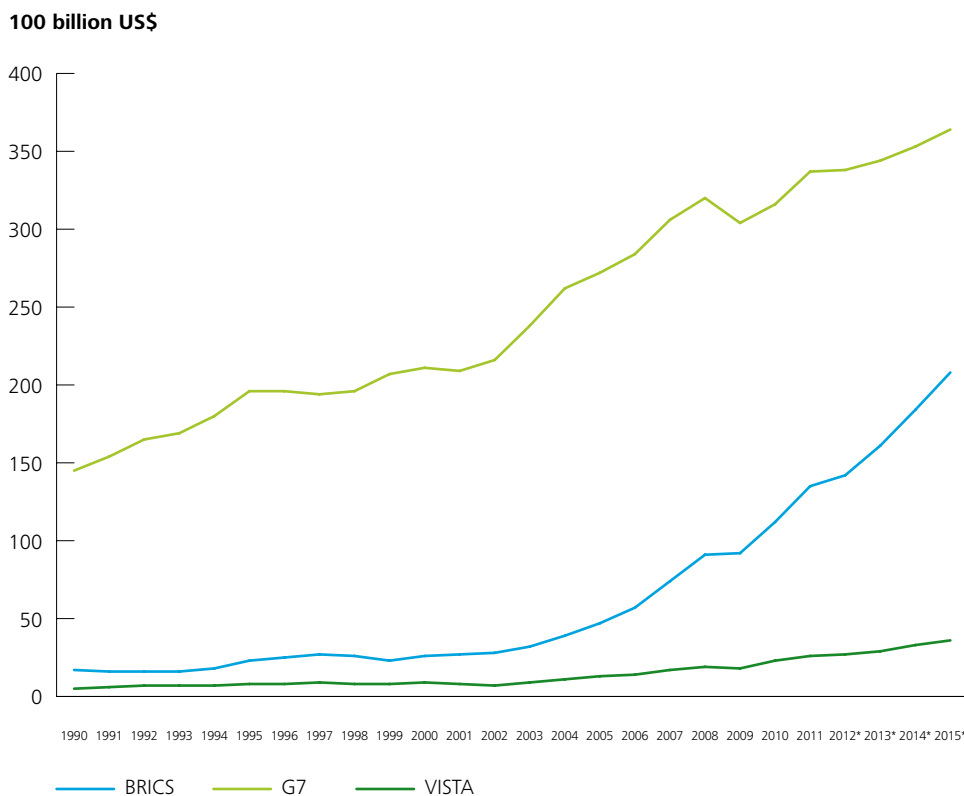
### BRICS, E11, and VISTA

As mentioned, the BRICS are the premier example of a bloc that is not based on geography but a sense of common purpose and shared interests. The term BRIC was first used in 2001, around the time China joined the WTO, to designate the common situations, potential, and interests of Brazil, Russia, India and China. In 2010 South Africa was added, changing BRIC to BRICS. With the addition of South Africa, the five economies have an estimated GDP of US\$13.6 trillion, one-third of the world's population, and a growth rate about three times that of developed nations forecast for the coming year.

Understanding the BRICS is important for all major nations and especially important for the BRICS countries themselves. Their potential growth is huge, but so are the risks they face. They are sometimes aligned in their interests together and against developed nations, yet amongst themselves they retain significant barriers to trade and investment. Their growth potential is driven by favorable demographics and growing domestic consumption, and a complementary mix of resource strength, manufacturing strength, and service strength. Over the decade since the BRIC concept was formulated, the BRIC countries have steadily increased their communication and cooperation. Even though the BRICS are not geographically proximate, like the countries in the Eurozone, it is not beyond the realm of possibility that a currency such as the RMB could become an important common trade and investment medium amongst them.

In 2011, the BRICS summit was held in Sanya days before the BFA Annual Conference. This year, the summit was held in Delhi, where a BRICS agreement was passed promoting bilateral cooperation with a number of specific ideas for cooperation. Despite this, however, it is unclear whether the BRICS will continue to be a growing unique specialized group of countries. Looking at Brazil, Russia, and South Africa, economic development has not been as consistent as in China, or perhaps even India. One idea is to establish a BRICS regional bank to enhance competitiveness; however, there are already many banks with similar functions in existence, such as the World Bank and African Development Bank.

**Chart 2: GDP trends for BRICS, VISTA, G7**



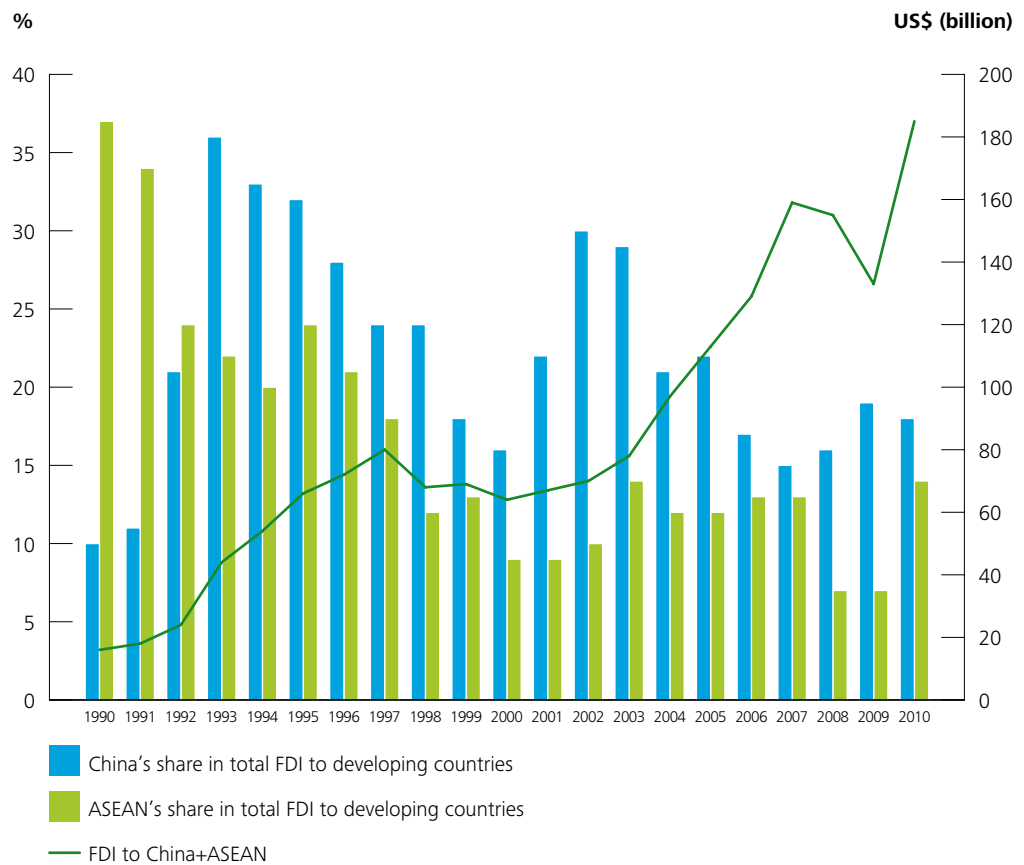
Source: World Bank (1990-2011), Economist Intelligence Unit (2012-2015\* forecast)

The VISTA countries, sometimes called "second-wave" emerging markets, differ from the G7 and BRICS countries in that they tend to be smaller, are at earlier stages of development, and are facing greater potential political change. But these economies have all the advantages the BRICS had at their earlier stages, namely inexpensive labor that can drive very competitive export-oriented manufacturing and large populations with fast growing domestic markets. Taken together, the VISTA countries represent 500 million new consumers, with per capita GDP about the same as China's, and they already have a GDP that is larger than India or Brazil.

Whether regional blocs or non-regional ones, such as the G7, BRICS countries, E11 or the VISTA countries, and whether institutionalized as a working group like the G7 or conceptualized as an ad hoc group like VISTA countries, the mutual identification of common interests in the evolution of the global trade and investment system, as well as a certain level of competitive dynamics, will shape the way that evolution itself will take place.

One clear area of competition is foreign investment, an area where China has dominated for nearly two decades, in many years taking in more foreign investment than the remainder of emerging economies combined. These affinity groups are having some but not a large impact on the strategies of investors from developed economies. For example, it is clear that many capital investors from outside the region increasingly see the Asian and ASEAN region as a somewhat integrated investment destination. The following chart demonstrates how regional sharing of FDI has increased in recent years. The total FDI has steadily increased, with an increasingly larger share going into the region as a whole.

**Chart 3: China - ASEAN FDI flows**



Source: United Nations Conference on Trade and Development (UNCTAD)



On the other hand, during the "China CEO Roundtable", CEOs of major MNCs operating in China were polled during a workshop about their future investment strategy. When asked about how their strategic plans were influenced by groups like BRICS, that is, affinity groups that were not regional in nature, 60 percent indicated they approached the opportunities on a country-by-country basis, and China in particular was a unique target for strategic investment, in and of itself. In other words, the BRICS association was not relevant to their investment planning. The concept is more important for the communications and cooperation among the members than for the investment strategies of countries outside the BRICS.

The significance of these affinity groups is not necessarily the specific members and their individual situation, but the fact that they exist and are gaining importance as the global financial system, trade, and investment bring everyone closer and closer together. While the BRICS concept itself is just a decade old, the group has already successfully acted in consort and impacted some major decisions in key international organizations. Acting as a bloc in pursuit of their common causes, the BRICS are both recognized and effective, even though they do not belong to a single region of the world and represent widely different economic, political, and resource situations.



Brian Derksen  
Deputy Global CEO  
Deloitte Touche Tohmatsu Limited

The diversity of the BRICS, E11 and VISTA countries is a source of strength, but it is also a challenge to their sustainability as blocs influencing global events. Synergies are strong, for example between countries exporting resources and countries exporting manufactured goods, but competition is also strong for available export markets and contention is strong as well in terms of the market pricing of raw materials, energy, intermediate goods, and finished goods along the value chain when supply chains cross borders. The problem that the EU is facing by sticking together as a regional bloc also applies to the Asian leaders' situation, and will undoubtedly be present in their thinking moving forward. The process of integration brings with it an increased level of mutual interdependence, which as we see in Europe, means economic stress in one economy communicates quickly to other economies in the bloc. The future success of these blocs to a large extent is in the hands of their leaders, and will require a firm commitment to communication and cooperation, and a true belief in the possibility of win-win scenarios.



# The good ship Earth - examining common cause in the context of urbanization, environment, and energy

Increasingly, people in all walks of life, in developing as well as developed nations, understand that choices they make can add up, compounded across neighborhoods, cities, provinces, and countries, and have an impact on the world and the sustainability of their lifestyles. For example, living and commuting decisions impose costs on societies in terms of the immediate price of energy and the long-term costs to the environment we all share. They also impose costs that can be deferred but ultimately have impact on public health and economic growth itself.

Nations around the world are now coming to grips with these costs. In Asia, as elsewhere, the solutions are found at multiple levels. Some involve smarter ways of financing and guiding urban development, while others require introducing new options around which ordinary people can frame their everyday choices for living, travel and work.

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## New technologies in transport, agriculture, materials and energy, as well as recycling, resource management and conservation play a major role in mitigating the impact that growing populations and improving lifestyles have on the Earth

The repercussions on whole economies are to a large extent shaped by public policy, which should steer social and lifestyle developments toward more sustainable directions. The growing dependence of Asian nations on oil and natural gas is a good example. For now, and until energy diversification is a reality, Asian nations remain dependent upon conventional sources of energy, particularly oil. This dependence cannot be reduced without some determination on the part of Asian governments to choose energy diversification and promote energy-conserving choices by consumers. And while the search for new sources of oil and gas accelerates, they are still finite resources, and additional production is at best an intermediate solution.

Until the shift to sustainability and energy diversification is realized, regional instability in oil-producing nations will continue to threaten productivity in Asia and around the world.

Political and economic tensions in oil-producing and exporting countries, wherever they are on the globe, send immediate shockwaves around the world, roiling the stability of economies dependent on energy imports everywhere and threatening their growth rates. Growth rates themselves are correlated to energy demand, carbon emissions, and other key measures related to sustainability, so we begin this section with the discussions at the BFA Annual Conference 2012 concerning the latest GDP trends.

### GDP trends

In 2011, China, India and Japan published GDP growths of 9.2 percent, 7.8 percent, and -0.5 percent, respectively. It has been expected that China's GDP growth may cool to 7.5 percent, and recent signs suggest it may dip even lower. Because China is such a significant importer of energy today, there is debate as to whether this will have an impact on mid and long term commodity prices. At the Annual Conference's "Energy & Resources: A Supply-Demand Dialogue" session, panelists were surprisingly unconcerned about China reducing its GDP growth target to 7.5 percent. Non-Chinese panelists reminded the audience that this is still an enviable growth rate, especially for such a giant economy. Some expressed confidence in China's long term growth as the central government continues to develop central and western provinces and promote accelerated urbanization. Those policies are expected to sustain a steady growth of demand in the longer term. Some reduction of growth would hopefully curb inflation, a welcome measure to the panelists. Chinese panelists speculated that the target can, and may be, surpassed. No one anticipated the smaller target would affect energy markets in a significant, sustained way.

### "Energy & Resources: A Supply-Demand Dialogue" session summary

Energy diversification is the key to achieving energy security in the 21st century, and it should be a top priority for all countries, especially developing countries. Markets should expect volatile oil prices in the coming months as a result of global economic instability, turmoil in Europe and heightened tension with Iran. Saudi Arabia (among others) has committed to producing more oil if necessary to ease tension in the market.



Presenting a forecast of India's economic growth in the session "India and Global Growth: Outlook for 2012-2016", Montek Singh Ahluwalia, Deputy Chairman of India's Planning Commission observed, "In supply side terms of growth, India is in a reasonably good position," but he acknowledged, "The constraints are in infrastructure. That has to be a top priority for the government". He further noted that India has been able to raise investment from 5.6 percent in 2006 to around 8 percent in 2011". He states, "Where an economy that has been growing at 6 percent, you do not encounter constraints immediately, but they present themselves over time". A regular theme at the conferences over the years has been determining the proper balance between investment-led growth in large emerging economies, fiscal discipline, return on investment and sustainability.

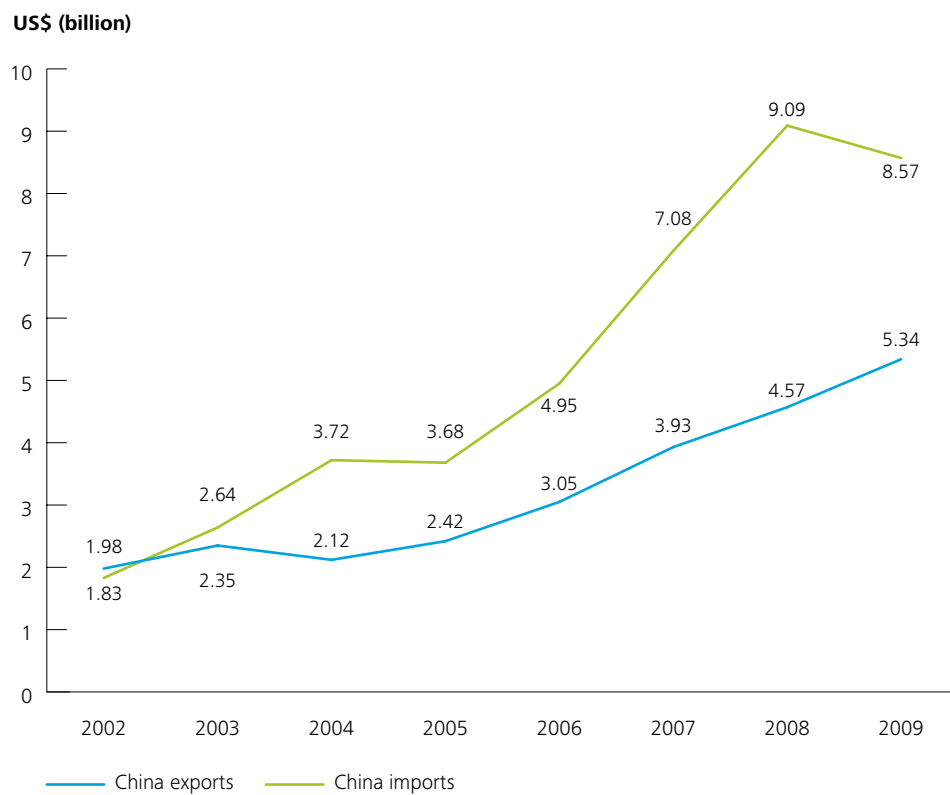
#### **"India and Global Growth: Outlook for 2012-2016" session summary**

Growth of 8.5 percent per year is a reasonable target for India, though it should provide inclusive growth while overcoming energy and resources constraints and improving infrastructure investment. Investment in India has increased from 5.6 percent in 2006 to around 8 percent in 2011. China and India face different challenges in respect of common issues and there are opportunities for shared investment using Chinese capital and Indian expertise.

### Urbanization: its policy and financing drivers

To understand how Asian societies can achieve sustainable growth, we need to understand the strengths and weaknesses of the development models that have led to our current status. Then we can determine the best path forward. A good place to begin is urban development in China as it is there that growth and its effects have been most profound over the past two decades. Urbanization drives consumer demand, increases productivity in both the industrial and agricultural sectors, and utilizes infrastructure investment. As China faces future uncertainty about export markets, urbanization has become a key element of the strategy to sustain growth. The 12th Five-Year Plan and all government policy announcements that address slowing growth and high levels of fixed asset investment cite urbanization as a key factor in sustainability.

**Chart 4: China - ASEAN agriculture product trade**



Source: General Administration of China Customs

In an environment of global regulatory and financial uncertainty, to which China is inevitably linked, Chinese leaders have shown a willingness to improvise in order to deal with obstacles in their path. Leaders note frequently, however, that solutions in the past have left a legacy of imbalances in the present. As the nation faces new and emerging challenges, the time has come to re-examine the model of development in a profound way, in particular to make it more sustainable, efficient, transparent, and equitable, a model that benefits all people in China.

China's growth has been justifiably celebrated in the world's press, and many believe China has the capacity to outpace almost every other economy in the world for the foreseeable future. The Economist Intelligence Unit (EIU) asserted in 2010 that China's "healthy growth" could continue unabated for at least 20 more years, submitting that the strongest rates of growth were already shifting from the wealthy cities of the eastern seaboard to inland cities like Zhengzhou in the province of Henan and Changsha in the province of Hunan.<sup>1</sup> The EIU projected that of 20 inland cities showing outsized growth, these two would number among nine "megacities" (metropolitan urban regions) in China by 2050. China's population is already 50 percent urban, and that number will only grow rapidly in the coming decades.

The interurban infrastructure for connecting such regions is well underway. China has already opened several high-speed rail corridors, with more under construction alongside the legacy rail network. The 12th Five-Year Plan calls for 45,000 kms of express rail lines by 2015.

China's rail construction, highway construction, urban light rail, and modern airports have captured the world's attention. Even with the capacity growth China has funded, railway stations in China are regularly crowded with travelers, particularly during holidays; subways are jammed during busy hours, and roadways in China's largest cities are heavily congested with private vehicles. These scenes contrast starkly with China's now-famous "ghost cities," where real estate development seems to have proceeded despite a lack of sufficient demand.

Yet, according to the analysis of panelists, these opposite situations have a common cause.

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## The mechanics of project finance in China partly explain the disconnect between demand drivers and real estate development, while implying constraints on the urban growth continuing at its present rate

In the developed economies of the West, capital budgeting is a familiar exercise for municipal governments. Large capital projects are commonly debt-financed in the form of bond issues, whether by general obligation bonds paid from appropriations, or by revenue bonds paid from funds generated by user fees on the assets themselves. In China, these avenues of funding were not available in the past to support development, as local governments were not approved to take on debt, either from bank lenders or from bond issuance.

Adaptations to this constraint included the development of local government investment corporations (LICs), which could take advantage of available bank credit to fund local infrastructure investment. In some cases, this led to infrastructure investment that was many times the current income of some municipal governments. The breathtaking growth unfolding over the past two decades was shouldered primarily by municipal governments, comprising more than a third of their total budgetary expenditures in 2010.

Could so much infrastructure have been built on a pay-as-you-go basis? Of course not, and that is not how it happened. But because this is a core issue in investment-led development, it is useful to take a more detailed look at the financing mechanisms.

<sup>1</sup> "CHAMPS: China's fastest-growing cities," *The Economist Intelligence Unit* (2010)

An explanation is provided in an essay in a forthcoming work to be published by the Lincoln Institute for Land Policy.<sup>2</sup> Just as China's urbanization began to accelerate in the 1990s, the central government reduced revenues to subnational governments while also curtailing their autonomy to impose taxes of their own design. Provincial governments determined the distribution of revenues from local taxes permitted by the central government. Most local government revenue was generated by taxes targeting business growth and urban development; and of these, revenues from taxes on land transfer for development grew rapidly. With that rapid growth, speculator interest in these markets also grew. As a result, local officials came to favor real estate development and investment over industrial development and investment.

Innovative approaches to local project financing spread quickly in the post global financial crisis period, and that lead to substantial capital flows outside established channels. Compounding the impulse to promote speculative real estate projects was the lack of capital budgets at any level of government, and the consequent off-budget, uncontrolled manner of funding many infrastructure projects. LICs appeared in the 1990s to fund such projects, and as they proliferated, subnational governments began to guarantee many of their bank loans with municipal revenues and land as equity and collateral. Because Chinese law fixes the value of undeveloped farmland as a factor of its yield as cropland, governments would gain revenues on development of land acquired at the fixed price and resold at higher values, pledging the future tax receipts as collateral for loans.

The extent of such financing methods remained unknown until launch of the PRC's RMB4 trillion stimulus program in 2008, when subnational government borrowing proliferated through LICs. Within two years, LICs were drawing 40 percent of new loans nationwide. It then came to light that the prohibition on municipal government debt had been problematic, contributing to a declining marginal value of capital invested. The measures had not only failed to prevent borrowing, but they also resulted in a loss of control and transparency in local government finance.

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## With no alternative means of funding the infrastructure needed to accommodate China's urban growth, municipal governments have resorted to financing methods that fueled real estate speculation with less than a proper regard for its impacts on neighborhoods, urban congestion or cultural heritage

This problem was increasingly recognized and discussed throughout 2010 and 2011, and it led to several moves to curtail credit and slow local government investment.

In assessing the surge in locally funded infrastructure, which can be traced back to 2003 or earlier, several things can be said. A great deal of highly valuable infrastructure has been created, and this is a clear differentiator and competitive advantage for China among emerging economies. At the same time, it left a legacy of stubborn problems, including substantial local government debt and a wobbly shadow banking system.

As a remedy, panelists suggested more coordination among governments is needed, along with cooperatively developed guidance at the national level. In particular, a carefully considered policy and system for public finance of infrastructure is imperative. The need is greater now than ever before; the cost of urban development is much higher, with the infill of open space and the demolition or repurposing of older industrial buildings in many Chinese cities already nearing completion, while culturally valuable structures remain at risk.

<sup>2</sup> Christine Wong, "Paying for Urbanization in China: Challenges of Municipal Finance in the 21st Century (working title); R. Bahi, J. Linn, and D. Wetzels, eds., Metropolitan Government Finance in Developing Countries; Cambridge, MA: Lincoln Institute for Land Policy (unpublished draft).

There is also the issue of converting valuable farmland. As in any urbanizing economy, the most valuable farming activity is often in the vicinity of large urban concentrations, where high value crops can be grown and transported to high value urban markets. So as cities expand, the farmland they engulf is not poor or even average, but premium quality farmland, and that has a disproportionate impact on agricultural productivity. China, with 8 percent of the world's arable land and nearly 25 percent of its population, is engaged in a long-term challenge over domestically produced food and imported food. Driving agricultural productivity is also a critical aspect of urbanization policy.

Urban construction in China has been largely dominated by local governments and their agents. Looking ahead, in building cities that consider the aims of residents both individually and collectively, government can and must turn to the private sector for solutions. At the BFA session "The Future of Asian Cities", panelists argued that the private sector is able to help in all matters

concerning urban development, from capital for investment to loaned staff arrangements. The private sector has to be part of the solution throughout the related discussions in order for the local governments' plans to be successful. Private sector involvement means more market forces would be at play in urban development, and that inevitably will improve the efficiency of capital investment.

**"The Future of Asian Cities" session summary**

Smart cities - urban areas enhanced by investment in human and social capital, and communications infrastructure - can include technology for telecommuting, cloud computing, and the integration of public transit and communications networks. Urbanization also presents challenges, including transportation and energy efficiency. Alternatives to automobiles for transport such as public transportation that is available, safe, affordable, and even connected by information technology, are crucial keys.



Zhang Xin (Moderator)  
CEO & Co-Founder  
SOHO China



Guo Wei  
Chairman & CEO  
Digital China



Richard Daley  
Former Mayor, Chicago  
Managing Principal, Tur Partners LLC



Leif Johansson  
Chairman  
Ericsson



Hitoshi Saito  
Executive Managing Director  
Mitsui Fudosan Co., Ltd.



Ting Tin Yu  
Vice Mayor  
Taipei City Government

### **Better urbanization: green buildings, smart cities**

By enacting fiscal policies, public finance measures, and effective oversight of new development, cities in China and across Asia are learning ways to keep uncontrolled growth in check. Asian cities are also moving forward to reverse the effects of poorly planned projects on environmental and living conditions, by applying "green" standards to new development, and by retrofitting existing structures as needed. All over China, cities are planning "eco-city" centers, seeking low emission or completely carbon-neutral buildings compliant with Leadership in Energy and Environmental Design (LEED) ratings that will improve the efficiency of overall urban life. Examples of incentives to individuals include a provision of China's 12th Five-Year Plan to offer preferential home loan rates to consumers who purchase certified green residential properties.

With these standards gaining universal acceptance, there are many examples to follow, such as Tokyo. As Hitoshi Saito, Executive Managing Director of Mitsui Fudosan Co., Ltd., observed at "The Future of Asian Cities" panel, "despite being one of the largest cities in the world, and at US\$2 trillion GDP, the city still offers a very comfortable environment for living today. Tokyo has also gone through housing shortages, pollution, and congestion, but most of these have been overcome over 30 years. Tokyo is now focusing on new issues from the shift from growth to sustainability. This is a challenge that ancient cities will have to address in the near future".

Panelists at the session on cities agreed that raising buildings to LEEDs ratings is not a perfunctory exercise, but it is a critical way to improve the quality of life in their cities. Describing a green building project undertaken in the city of Chicago, Richard Daley, Former Mayor of Chicago, emphasized that the benefits were understood and welcomed by the residents and other stakeholders. He states, "We led by example and found out what was required. All the workers wanted that, they wanted the air quality built into the building". The local employment benefits of collocating industrial facilities with residences in environmentally retrofit buildings were also a highly effective selling point. According to Daley, "factories can be integrated with technology and residences. And these factories bring high-income

jobs. They bring jobs to the community, as well as being environmentally friendly. All these renovated factories will be environmentally friendly". The key take-away in Mayor Daley's remarks was that on the path to sustainable city development, citizens and government were in close alignment.

Integration of green features is possible even in culturally sensitive districts and neighborhoods, and may be key to preserving endangered and historic structures in these areas. As Saito describes, "In (one place) we maintained the 300-year old character of the area while integrating new technology". Voicing the consistent theme of the panel discussion, he added, "We will not only build buildings but create communities; you need to negotiate with residents so that they are integrated into the plan".

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## **Cities are communities, and any development must be responsive to the needs of the people who live there**

The subject of "smart cities" - urban areas enhanced by focused investment in human and social capital, and communications infrastructure - elicited panelists' comments on practical measures including telecommuting, cloud computing, and the integration of public transit and communications networks. "The Future of Asian Cities" panel agreed that the nature and location of work would be changed by technology, even if it is not yet clear whether people will be working at the office, at home, or anywhere. And whatever work patterns prevail, efficient mobility will be essential in the cities of the future.

Emerging economies have the opportunity to plan and develop mobility infrastructure that is rational and efficient. In developed economies, taking the US, EU, and Japan as examples, various combinations of air, rail, and auto travel prevail, but none was planned in a highly integrated way.



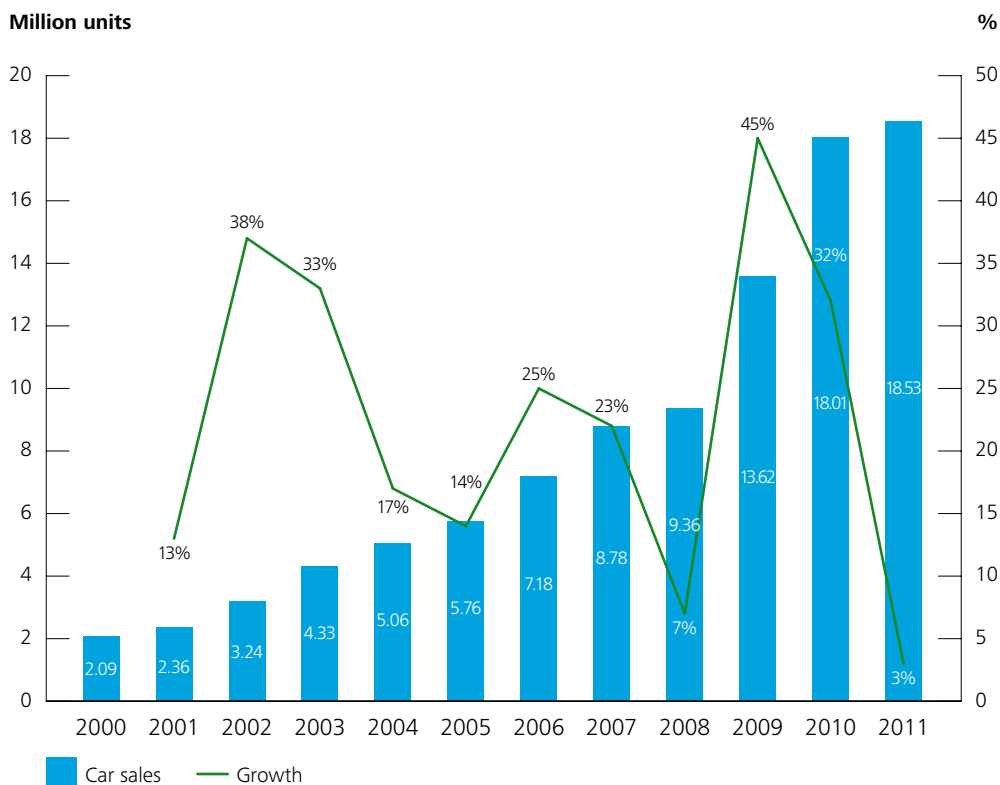
## Rather than continuing to rely on their automobiles, commuters need public transportation that is available, safe and affordable, and coordinates well with their individual mobility needs

In a growing number of Chinese cities, the vast majority of workers who continue to travel to work have an expanding range of transportation modes to choose for in getting there. China's investment in public transportation modes is unprecedented in scale, especially in high-speed rail and subway lines. For example, Guangzhou has 236 kilometers (147 miles) of subway lines and 120 stations in operation, with a long term plan for at least 500 miles of subway and light rail routes. As smart city design takes hold, public transportation will also be connected by information technology, allowing self-guided trip selection.

### Automobiles

Of course, rapidly increasing private car ownership puts huge demands on infrastructure and energy. For Asian countries without substantial oil and gas resources, growing automobile ownership unavoidably increases the burden of importing oil and gas. It also creates urban congestion and pollution. As a result, in fast-growing Asian economies, both traditional internal combustion automobiles and green cars that are highly efficient or use alternative energy will be important products. Both the need to develop alternative energy vehicles and the potential to play a role in supplying global markets are of great moment and importance.

**Chart 5: China car sales growth**



Source: China Association of Automobile Manufacturers

Given China's environmental situation, domestic and foreign companies should manage environmental concerns accordingly. Growth is promising, but companies must account for a changing landscape. Labor costs and supply chains, as well as these broader issues of energy availability, environmental impact, government policy and consumer preferences will all be important factors for MNCs to consider as they invest in China's transportation sectors.

Global automotive R&D investment in China is increasingly focused on alternative energy propulsion. This is shown in the Chinese central government's plan to allocate RMB1 to 2 billion annually to support domestic design and production of green vehicles, while continuing incentives in pilot cities to promote their purchase by consumers and local governments. Besides nurturing its own domestic industry to produce green vehicles, China is also leading the way in coordinating electric vehicle design with complementary public transportation options that function together as integrated systems, an approach that can be applied throughout Asia and the world. With a comfortable, safer and "greener" car, the industry and the public can both benefit immensely.

Although the importance of electric and hybrid vehicles was acknowledged and emphasized, most panelists believed that over the next 10 to 20 years, the most popular car will remain the conventional, internal-combustion-driven automobile.

Therefore, while alternative energy automotive propulsion is a focus on R&D investment, perhaps a larger part of the solution is the integrated approach to mobility we described above. Already it is evident in China that automobile owners use their vehicles much less than their peers in the US, EU, and Japan, less than 80 percent of car owners exceed 80 kilometers a day, and many drive much less than that. Not only does driving less miles in individual mobility devices like private automobiles save energy, it also means that less complex solutions are needed for systems based on alternative energy devices, for example basic electric plug-in vehicles, in terms of range and recharging solutions. An integrated solution would include individual mobility devices connected to mass transport systems at convenient intermodal stations, so the right balance between convenience, efficiency, safety, and sustainability can be achieved in an urban mobility system.

#### **Preparing for what may come: energy security and international stability**

Liquid fossil fuels will not, in the opinion of most experts, be significantly replaced in the near or midterm future. The continued use of conventional vehicles means that Asian societies will, like others, continue to rely on conventional energy sources. The discovery and production of new fossil fuels, such as shale gas and coal bed methane, and new technologies that enable the production of liquid and gas fuels from biomass, cellulosic sources and solid hydrocarbon sources will accommodate some but not all of growing energy needs.

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**Technological improvements and the availability of alternative fuels will continue to improve efficiency, while reshaping the dimensions and specifications of conventional internal combustion engines**

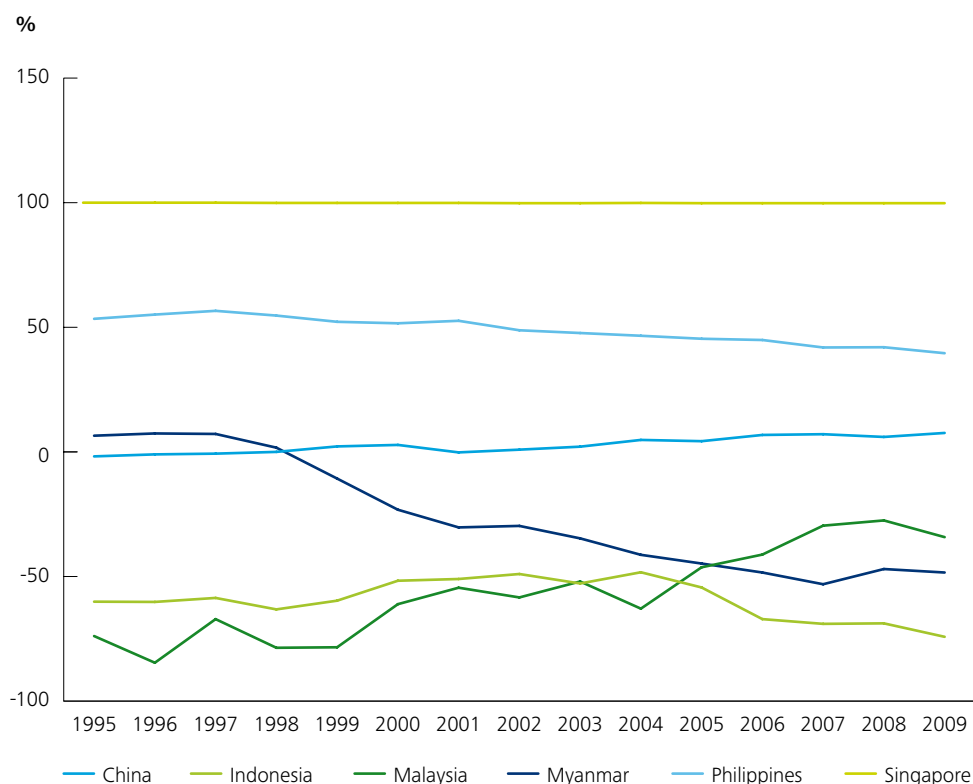


Montek Singh Ahluwalia  
Deputy Chairman  
Planning Commission, India

Markets should anticipate the possibility of higher and more volatile oil prices. With so much uncertainty in the Middle East, geopolitical tension is driving up the price of oil, and this trend could continue. At the "Energy & Resources: A Supply-Demand Dialogue" session, Zhang Guo Bao, Chairman of China's National Energy Commission, voiced concern that rising oil prices would impede any economic recovery. Audience questions at the session suggested a general anxiety about oil prices, especially in the event of conflict in the region. Tensions in the Middle East and elsewhere are undesirable, yet remind us that energy diversification and the reduction of dependency on foreign oil are the rational course for all Asian nations, especially developing countries.

Since the 1990s, China's imports of foreign oil have been steadily increasing in proportion to their overall oil supply, and now crude oil, refined products and LNG imports are approaching US\$200 billion a year. India likewise is dependent on foreign energy sources, as are other Asian nations, but with import growth somewhat less than China's. In "India and Global Growth: Outlook for 2012-2016", Ahluwalia observed, "We have major challenges as any country does on energy. If we grow at 9 percent, then energy supply must also grow by 6.5 percent. So in the next five to 20 years, there will be increasing dependency on the energy front". Every nation worldwide faces a certain urgency to diversify their energy sources.

**Chart 6: Net energy import (% of energy use)**



Source: World Bank, Deloitte Analysis

The world's supply of conventional energy faces intense economic, political and environmental pressure. As nations develop, the BRICS in particular, the whole world's demand for energy promises to outstrip fossil fuel resources. Increased demand is compounded by political instability. Zhang pointed out that oil prices are more a function of political instability in the Middle East than of supply and demand. Wenent P Pan, Chairman of CTCI Foundation, pointed out that with 70 percent of Asia's imported oil coming from the Middle East, residents in Asia suffer the most from increased oil prices.

Besides the pressing economic and political concerns, environmental damage and climate change pose long-term consequences for the world's dependence on coal and oil. All these factors together explain why the panelists passionately agreed that every country must diversify its energy sources, paying particular attention to renewables. The options for diversification vary: hydropower, solar power, wind,

natural gas, shale, renewable gas, and nuclear power. Every option presents its own challenges. Natural gas, shale gas, and renewable gas appear preferable in the wake of the nuclear disaster at Fukushima, but nuclear energy is expected to remain a crucial source as countries choose from an imperfect portfolio of energy sources. Wind and solar have their own negative impacts in terms of manufacturing costs and environmental impact when deployed.

As countries diversify, energy is becoming a more international, interwoven and cooperative sector. Russian pipelines in China, US-Mexico cooperation to extract shale gas, US-China research on clean energy, Sinopec investment in biofuels, clean energy, and nonconventional shale gas in North America - these are just a few examples of international energy efforts and investments cited by the panelists. Energy is a place where leaders often recognize they are "all in this together," yet it is also a source of intense regional and global conflict. Given the political, economic, and environmental climate, energy diversification is the only means to achieve energy security during the 21st century.

### Potential flashpoints and commodities exposure

It is inevitable that regional disputes over existing or potential energy resources will continue, in Asia and elsewhere. Some of these differences are manifest in differences over sovereignty, others over commercial investments and developments in relatively challenging parts of the world. When China or any nation invest in the resources elsewhere, it is important that the arrangements be mutually beneficial and balanced.

Panelists emphasized that objective contractual arrangements benefiting all interested parties, including socially responsible investments, are the best means of doing business in other developing nations. If instead, engagements with African, South American and Middle Eastern heads of state and senior officials are conducted on the basis of personal relationships, with less commitment to community-building, they will remain vulnerable to potential power shifts within those nations. Dramatic changes as seen in 2011 in the Arab Spring threaten either forfeiture of international investment or a resort to heightened security measures that are unwelcome, unproductive, and destructive to international good will.

Even if Asian raw material investments abroad avoid being swept up in localized conflicts, they remain subject to commodity price volatility



Li Dao Kui  
Professor  
Tsinghua University

for other reasons. Domestic resources are also subject to competing uses, misallocation, and other challenges. Not all constraints are new; for example, the scarcity of water is an ages-old problem in both India and Western China. As Ahluwalia noted, "Water constraints are not so different from what they were 5,000 years ago, but improvements will be required in the efficient use of water. We can learn a lot from our neighbor to the north, as China is facing the same problem".

In the case of India, the shortage of infrastructure development in relation to its population is a compounding factor in its resource allocation concerns. As only half of India's population is served by adequate infrastructure, it is understood that these improvements are necessary to keep India's development advancing, and that this presents large-scale investment opportunities. However, the types of investment solutions needed, such as transportation and water treatment facilities, present their own demands on India's resources. Li Dao Kui, Professor of Tsinghua University cautioned Indian panelists that India would find itself a net importer of iron ore were it to continue building infrastructure to keep up with its demographics-led demand. He added, "We are both victims of fluctuations in commodity prices, so we have much in common".

The many sessions of the Annual Conference dedicated to the physical aspects on our shared life on earth, linking the environment to finite fossil energy, water, and arable land resources, demonstrated the central importance of these issues to economies around the world and to the healthy growth of social development around the world. Complex problems were raised, and there was consensus that complex solutions were needed. The challenges of managing the physical aspects of life are greater than any one nation can handle. So, whether discussing policies or technologies, managing the good ship Earth for the benefit of all humankind is one of the most important and urgent calls for cooperation we face.

# Society and culture - the pursuit of happiness, security, stability, and prosperity

Several events at the Annual Conference 2012 address social and cultural issues, including media, entertainment, healthcare, education, and other factors that contribute to the quality of life for ordinary citizens. During the Opening Plenary, several leaders raised the importance of standard of living and the sustainability of the drivers of improved standard of living for citizens, beginning with the alleviation of poverty and reaching into the challenge of building an ever-expanding middle class that can live safe, secure, and fulfilling lives.

The discussions at several sessions aimed to articulate what the goals are, not only of nations and their leaders, but of the multitudes of ordinary people living within them. All the components of everyday life are important in achieving national, family, and personal goals.

Thus, beyond the BFA's focus on economic improvement, there is the larger question of how to improve the daily lives of individuals. In the opening session "Young Leaders Roundtable: Defining Happiness", the panelists framed all subsequent discussion of society and culture at the BFA – when their basic needs have been provided, each person should be free to pursue happiness in ways that are meaningful individually.

Subsequent panels dealt with a diverse range of issues concerning how to meet basic and successively higher-level needs of Asian societies, including those for public and personal health, communication, education, urban infrastructure,

and all aspects of social security. Also addressed were solutions to the large disparities in wealth that are typical in emerging economies, and how individuals might contribute to society through creativity and philanthropy as their societies industrialize and modernize.

## "Young Leaders Roundtable: Defining Happiness" session summary

A consensus emerged that material things did not necessarily improve the sense of happiness and safety for the younger generation. When basic necessities are met, happiness is the result of intangible aspects of personal fulfillment that are best left for individuals to decide. Public policy should be aimed at meeting the basic needs and then providing equality of opportunity to all persons for personal development in ways they find fulfilling.

In the roundtable discussing happiness, the consensus was that wealth and income gaps were not irrelevant, but they really were not germane and were regarded as separate issues. Charity work was seen as important. Those panelists who suggested charity work to benefit others did so based on their own experiences, confirming that philanthropic endeavors generate benefits and happiness to those who give as well as those who receive. If not a new principle, this is certainly one being revisited in China today, where cultural as well as systemic barriers generally inhibit both the rich and the public from engaging in philanthropy. In campaigns such as the Beijing Spirit campaign, two of the four key concepts are "inclusiveness" and "virtue".





As discussed at one of the later sessions, "Philanthropy: Transparency, Accountability & Public Trust", China at this stage lacks anything like other countries' public policy frameworks for promoting charities. As a result, the growing volume of Chinese giving RMB70 billion in 2011 still amounts to only 0.18 percent of GDP. This was highlighted when Warren Buffet and Bill Gates visited China to promote more philanthropy among China's ever-growing wealthy individuals.

### "Philanthropy: Transparency, Accountability & Public Trust" session summary

China's philanthropy is less developed as a result of cultural, legal, and institutional barriers. The lack of public trust is a serious issue that the philanthropic sector must address. With events like the Sichuan earthquake, the need for improved philanthropic effort is becoming more obvious to the Chinese public and government.

Many successful Chinese entrepreneurs see their creation of jobs and opportunities for customers as charitable enough, and the public is skeptical of charitable institutions that might be incompetent or ineffective. These unfavorable views of philanthropy are compounded by regulatory obstacles that do not support philanthropic operations, such as an absence of the tax benefits available in many countries.

Restructuring regulations, empowering professionally managed philanthropies, promoting transparency in their operations, and widely promoting the simple act of "giving back" may help promote the growth of important charitable activity. Few public policy initiatives could be more effective than these in promoting happiness. For most others, the aim is to provide a framework for providing modern infrastructure and meeting people's basic needs, reliably, fairly, and affordably.

### Meeting basic needs

There are many aspects to meeting basic needs in societies undergoing rapid transition, which describes most of Asia. One growing issue in China is the expanding percentage of older people in the population and growing rates of chronic disease. As a result of the great success of public health initiatives going back over 30 years, life expectancy in China has doubled. China will have as many as 350 million people over the age of 65 by 2020. At the same time, the One-Child Policy has reduced China's fertility rate to 1.4. Additionally, China currently faces high rates of non-communicable diseases (NCDs), accounting for 83.3 percent of deaths in 2008, compared with 63 percent worldwide. China is entering a period of negative demographic dividend, where the number of retirees and their related health care costs grow, while the number of active workers supporting the benefits of the older citizens declines.

During the breakfast session, "International Cooperation on Chronic Disease", Chen Zhu, the Minister of Health of the People's Republic of China, stressed that the implementation of China's healthcare reform is an important work in progress. Chen said that healthcare is the government's responsibility, and that the aim of the reform plan is to put healthcare within everyone's reach. Healthcare reform has been a focus since economic reform began, when SOEs were relieved of the social burden they had shouldered prior to reform. Since healthcare reform has started, according to official statistics, the number of people with some form of basic health insurance has grown to 1.295 billion people, or from an original 15 percent to 95 percent of the population.



Chen Zhu  
Minister of Health  
The People's Republic of China

China's public health initiatives include vigorous campaigns against risk factors for NCDs, for example, those related to work environments, personal diets, and lifestyle choices such as smoking. It includes the ambitious goal to build from scratch a nationwide pool of qualified general practitioners (GPs), whose numbers today amount to only 4.3 percent of practicing physicians in China. China also plans to offer healthcare services to at-risk segments that are currently underserved, including the rapidly growing populations of aged and persons suffering the effects of mental illness.

Chen noted that the government supports private investment in the healthcare industry, though he also reminded his audience about an important point.

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**The health industry is different from others and cannot be purely profit-oriented; it must first and foremost work to protect and improve peoples' lives, and policies are expected to reflect this mission**

Among recent changes illustrating Minister Chen's point is the opening of hospitals and clinics to 100 percent foreign ownership.

Closely related to the challenge of meeting the basic healthcare needs of ordinary Chinese is the business opportunity presented by the development of the medical tourism market, which has been so successful in Thailand and India. According to the China Tourism Research Institute, the medical tourism market is a US\$750 billion market, and continues to grow rapidly. Yet sustained development of this industry depends on the quality of medical service, the establishment of industry standards, creation of business certification, establishment of a reputation, and establishment of a good working relationship between the industry and travel agencies, who can recommend medical tourism to even more tourists. If China cooperates with other Asian countries to promote medical tourism, including removing legal and insurance-related constraints, the region will be more able to develop the industry.



## Education

Together with universal healthcare, education was viewed as essential to any measure of human satisfaction and success - not only of individuals, but of the society at large. Asian families are particularly focused on education, as it is well-understood that education is the key to life-style improvement generation by generation.

Panelists at "Ideas Festival: The Fundamentals of Education" were agreed that governments face extensive challenges in creating prosperous societies, and education is needed to overcome those challenges. Education is worth the 5 percent of GDP countries are investing on average throughout the globe. Emerging economies such as China and India have made education a priority since the outset of their economic reforms. This has paid benefits, in terms of upgrading the human capital pool for science, technology, engineering, economics,

business management, medicine, and the like. From a national perspective, education is the cornerstone to building a knowledge society and meeting the talent demands of sustainable development.

### "Ideas Festival: The Fundamentals of Education" session summary

Policy-makers should carefully consider the purpose of the university, and that purpose should drive admissions process, curriculum selection, and university systems. Education is worth the 5 percent of GDP countries are investing on average throughout the globe. Emerging economies like China and India have made education a priority at the onset of their economic reforms. Education reform may be the most important step in achieving many goals of development in Asia.



Colin Dodds  
President  
Saint Mary's University



Jason Li  
Executive Chairman  
US-China Partnership Committee



Michael Spence  
Vice Chancellor & Principal  
The University of Sydney



Zhu Min Shen  
Principal  
Top Education University



Shu Fu Min (Moderator)  
President & Editor-in-Chief  
Xiao Kang Magazine



Zhang Xin Sheng  
President, China Education Association for  
International Exchange



While education systems are vital to a nation's economy, they do not just drive growth of GDP numbers. The most formative years of every person's life are arguably the time spent in school. Policymakers should weigh the profound impact education has on society as they determine how the system will operate. Universities should carefully consider their social obligation to cultivate leadership and citizenship in every student to make society a better place. Education is a major contributor to social stability in this regard.

Throughout the development of China's current Five-Year Plan, discussions focused on building a knowledge-based economy and replacing the "Made in China" label with an "Invented in China" label. To achieve that, a more creative and innovative workforce is needed. Across Asia, not only the availability of educational resources but the nature of pedagogy has been a discussion topic for decades, often argued around the question: does Asian education promote or hinder creativity? These discussions often talk about testing in Asian societies, the prevalence of rote memorization in pedagogy, and even the challenges of learning complex Asian written languages.



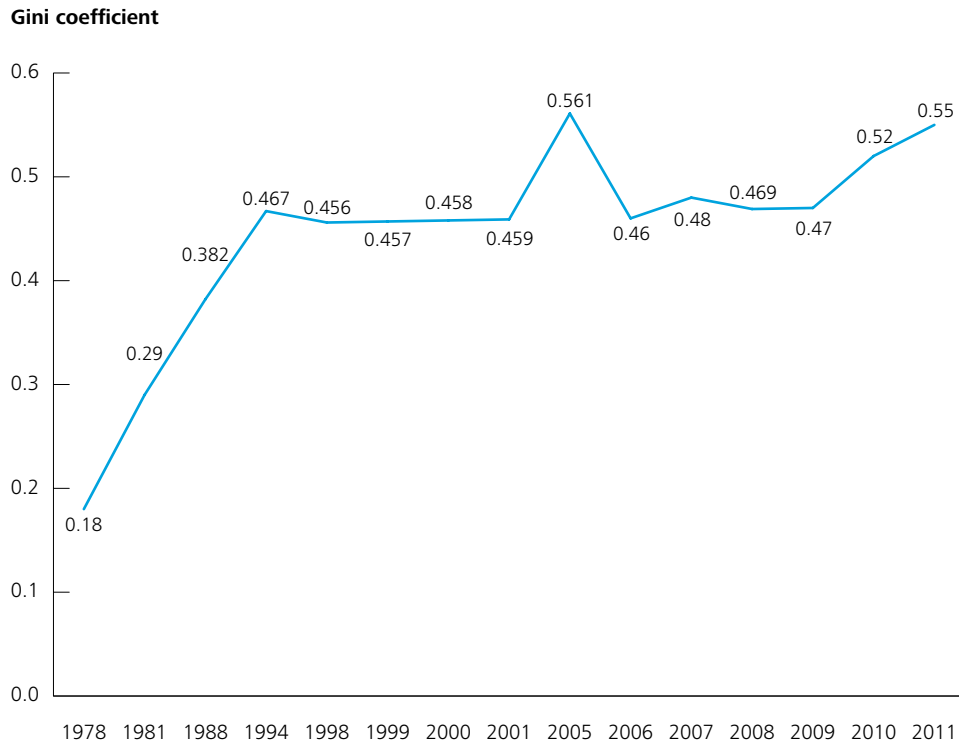
Examining the questions of testing, panelists compared college admissions procedures in the West with those in China. China's regimented gaokao (高考) college admissions test is the only official metric for students applying to universities in China. Education officials might consider modifying this process to indicate that broader measures of a candidate's potential contribution to society, and hence the country's "return" on education investment, is valuable in addition to exam scores. Anchoring admission to the college of one's choice to highly structured exams - using simple multiple choice, formulaic questions - can dampen creativity and innovation. In contrast, admissions decisions in the West typically consider how well-rounded an applicant is, how well an applicant can express personal and professional goals in an application essay, and the applicant's record of public service.

As China reforms its education system, it can draw on the strengths and experiences of other countries without ignoring the special characteristics of Chinese society. Although each country proceeds in its own way, educational integration is emerging as a larger trend in our globalizing world. Students are crossing borders for graduate school, undergraduate school, and even high school. Universities should carefully foster international integration by exchanging students, faculty, and staff and engaging in joint research. Professional careers in the future will all have international dimensions, and education is the foundation for success in professional careers.

### Income gap

Health and education are commonly regarded as basic needs for which the government should be responsible. What about wealth and income gaps? Panelists asked if closing such disparities is essential for Asian people to be content and societies to be stable. Many Asian societies register Gini coefficients, the common measure of income disparities, that are very high by historic standards.

**Chart 7: Gini chart**



Source: Deloitte Research

This question was raised directly to panelists at the "Young Leaders Roundtable: Defining Happiness", but it was generally set aside. Participants resisted the idea that money was a causative factor in happiness or unhappiness, and steered the conversation toward more personal feelings and decisions. Once basic human needs were met, income disparities and other "horizontal comparisons" were not regarded as root causes of unhappiness.

Nevertheless, a session titled "Addressing Income & Wealth Inequality" specifically dealt with these issues. Chinese media has focused on the question of the younger generation, and their attitudes toward work, income, wealth, and material goods. The panel discussion centered on the challenges of how to minimize the effects of income and wealth disparities, which are particularly important as China continues to urbanize and the riches of city life are always before the eyes of urban citizens.

middle stage development. For countries that are resources-intensive, the middle income trap results when dependence on resource exports is insufficient to support growth beyond the middle level. For countries that are manufacturing-intensive, the middle income trap results when manufacturing costs become too high to compete with less developed, low wage countries, but manufacturers are still not equipped to compete with more advanced countries for higher value exports.



The consensus of this panel was that effective policies and programs were needed to raise opportunities among disadvantaged populations, beginning with improvements to the education system and labor laws. Labor laws and changes in the minimum wage have already seen benefits. Nonetheless, because of the complex nature of Chinese cities and the urbanization rate, which will hit 50 percent within a few years, wide discrepancies in terms of wealth and resources exist in close proximity. Young people with very limited means and new to the city are constantly exposed to the world's most luxurious clothes, accessories, and automobiles and that can nurture a level of dissatisfaction and unhappiness.

From the perspective of leaders in government, business, education, and public services, the most important thing is to avoid the middle income trap we have mentioned before. In the 1980s and 1990s, more Latin American economies and South Africa fell victim to the middle income trap than avoided it. Growth stagnates because investments in society, infrastructure and institutions are not sufficient for the economies to move from early stage development beyond

#### **"Addressing Income & Wealth Inequality" session summary**

Although income and wealth disparity are a natural part of the process of development, there are certain things governments can do to influence trends and manage risks. Two of the most obvious ones include improving and focusing the education system and labor laws to equip people with the right kind of skills for the job market. Another challenge for governments is to look carefully at tax expenditure and to spend time periodically to adjust tax codes.

Chinese leaders have called attention to the uneven distribution of the fruits of China's growth for at least a decade. The long term solutions are precisely what is needed to reach the goals set out in great detail in the 12th Five-Year Plan. And these solutions go beyond the obvious need to promote investment in physical industrial capacity and infrastructure in less developed areas. That is first to focus on equipping people with the skills to succeed at work and in life, which means participating in a society with more domestic consumption, more innovation, and more productivity. Secondly it is to provide policy and financial support to productive industrial and commercial sectors that can drive overall development into the level of mature economies. In other words, successfully tuning policy and training a skilled labor force will benefit both individuals and society generally.

### Meeting the needs of advancing societies

Providing for people's basic needs is only the foundation of a prosperous society. For that society to advance, its leaders must go further, building infrastructure and instituting processes that allow people to achieve higher levels of success. Without these more sophisticated systems and their related investments, economic development is impossible and personal achievement is highly impaired. Moreover, it is this infrastructure that is critical to the emergence of a strong middle class in any society.

Several panels addressed the challenges and opportunities presented in building and benefiting from this essential infrastructure. Among these was "The Future of Asian Cities", where panelists from the public and private sector discussed the accelerating urbanization of Asian cultures, which is intensifying pressure on government and residents. From a demographic perspective, China's headroom for urbanization is a major asset in sustaining development, and urbanization speeds a family's climb up the economic ladder. That headroom is a combination of current large rural populations and land that can be committed to urbanization. But urbanization also sharply increases the demands on local governments to provide appropriate infrastructure and services. And, most critically, it impinges on land use and availability for other purposes, so there is a balance point beyond which excessively fast urbanization can sharply decrease the overall efficiency of development and become itself a source of unsustainability.

Given China's large population, and with only 8 percent of the world's arable land for food production, the extent to which urban sprawl impacts quality arable land is itself a critical question for sustainability. The issues addressed ranged from smart cities, to sustainability, to government's responsibility to stakeholders. Throughout the discussion, panelists emphasized the strong sense of care and trusteeship that local government leaders must continuously exercise on their constituents' behalf.

Just as the urban infrastructure of a society depends first on provision for more basic needs, this bedrock of infrastructure is the foundation for development of the middle class: providing the homes they live in, the factories and office towers they work in, and their means of traveling from one place to another in safety and relative comfort. Once in place, it allows the society to prosper. This is certainly true in Asia, where a rising middle class means greater affluence and more demand for luxury goods.

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Imbalances in infrastructure development, for example insufficient roadways to accommodate a growing number of cars, saps productivity and fuels unhappiness among urban dwellers

The burgeoning middle class in Asia and its impact on Asian consumer patterns were the subjects of "Rise of the Asian Middle Class & Changing Consumer Behavior". Across Asia, the purchasing power of the middle class is growing. Omitting Japan from consumer spending statistics in 1965, Asia's share of the world's middle class was three percent, and it was the source of two percent of spending in the world at that time. Today, Asia less Japan represents 24 percent of the middle class and 16 percent of spending, the result of cumulative growth over that period of 800 percent.

Consumer preferences in emerging economies always reflect a synthesis of traditional tastes and preferences and modernized tastes and preferences. Quality tea is a fast growing market in China, but so is coffee under imported brands. Marketing to Asian consumers will follow the same development approaches used worldwide - that of local market adaptation and marketing to targeted segments. In China, there are now different layers of consumers. This feature applies to all tiers of cities in China. Consumers' decisions are influenced by their level of income and sophistication, so domestic and international brands alike will find it important to consider which levels of the middle

and upper classes they are trying to address. Studies of China's diverse regions have also identified very different bases for consumer choices in different regions of China.

### **Rise of the Asian Middle Class & Changing Consumer Behavior"** **session summary**

A shift from an export-led economic model to one of domestic consumption will raise new public policy issues and perhaps help to resolve others. A rising middle class means greater affluence and more demand for luxury goods. But at the same time, consumers' decisions are influenced by their economic level and background, so it is important to consider which levels of the middle class you are trying to address.

Asian consumers are buying all kinds of goods, including cars and large household appliances. The automotive industry is not only a target of consumer spending and a reflection of a society's wealth, but part of that society's infrastructure, with implications for urban planning and resource allocation. Household appliances, furniture, and accessories are not only important growth industries but tie into the universal middle class aspirations to own a dwelling and achieve a life with some leisure in it.



Top automobile executives were panelists for "Auto Outlook in the New Normal: Great Opportunities and Great Risks". Unsurprisingly, they agreed that the auto industry has benefited from globalization. The China and India auto markets together comprise half of the world market and offer tremendous growth opportunity for global and local automakers. Automobile penetration remains low in these markets, and the populations are vast. There is tremendous room for growth.

**"Auto Outlook in the New Normal: Great Opportunities and Great Risks" session summary**

Between its population and economic growth, China offers unique growth opportunities that no automobile company can afford to bypass. Traditional automobiles and green cars will be important products for the Chinese market. China has 1.3 billion people, and among that, there are about 100 million cars. This means compared with the average of the rest of the world, China has a dramatically lower level of car ownership per capita, with a 13:1 ratio. Growth is promising, but companies must account for a changing landscape. Labor costs and supply chains will be important factors for MNCs to consider as they invest in China.

China offers the greatest opportunity for investment and growth for the automobile industry, already standing as the world's largest automobile market based on total unit sales. Between its population and economic growth, China offers unique growth opportunities that no car company can afford to pass by.



Xie Wei Lie (Moderator)  
Senior Consultant  
Global Times



Gregoire Olivier  
Executive Vice President  
PSA Peugeot Citroen



Katsuaki Watanabe  
Senior Advisor  
Toyota Motor



Par Ostberg  
Executive Vice President  
Volvo Group Truck Joint Ventures



Zhang Fang You  
Chairman  
Guangzhou Automobile Group Co., Ltd.



Zhang Sui Xin  
Executive Vice President  
Volkswagen Group China

In the past decade, the acceleration of globalization and development in Asia has had two effects related to the automobile industry, especially in the three largest market economies - China, Japan, and India. Firstly, the industry is universally seen as a pillar industry for the development of any economy, and along with the potential for domestic sales, the potential of becoming an auto exporting country has great appeal. Secondly, the desire to own an automobile has spread quickly through the large populations of Asia. Only a few decades ago, for too many Asians it was impossible to contemplate owning a car. Now it is easily within the realm of possibility.

China has 1.3 billion people, and among that, there are about 100 million cars and annual growth of about 18.5 million vehicles. This means compared with the rest of the world, China is still at the minimal level of car ownership per capita. With a 13:1 ratio of people to vehicles in China, compared to a 1.2:1 ratio in US, there is great potential to expand in this market.

The automobile industry is about conventional infrastructure such as roads, bridges and buildings that dominate the physical landscape. But the world is increasingly influenced by communication infrastructure. New technologies and modes of interacting with each other bring new opportunities for people to share, learn and profit in an advanced society. Some of these technologies surpass the functions of other types of infrastructure, enabling people not only to trade and make their way in life, but to reach higher levels of personal fulfillment through collaboration in communities with others. Among the seven strategic industries China has identified in the 12th Five-Year Plan is high technology IT.

Some of the freshest technologies for this kind of interaction were discussed in the panel session "Cloud Computing, Mobility and Social Media: Changing Business, Changing Life". Cloud computing revolutionizes business productivity, allowing for extraordinary levels of cross-border collaboration, resource sharing, and even faster communication. Business operations can become more and more efficient. The cloud creates agility, scalability, and flexibility in a way that businesses can fundamentally change the way they deliver value. These advancements accelerate productivity growth and benefit the whole economy.



Cloud computing will also revolutionize the use of mobile and stationary terminals by ordinary citizens. Whether for work, entertainment, or other information needs, cloud resources permit individuals with multiple devices to have access to all of their personal and stored information whenever and wherever they need it. As a result, cloud computing is one of the fastest growing elements of the overall information eco-system for both individuals and enterprises. The proliferation of cloud computing also promises to be a growth area of state-owned and private players in the IT ecosystem.

#### **"Cloud Computing, Mobility and Social Media: Changing Business, Changing Life" session summary**

New Internet technology - cloud computing, mobility, and social media - has enormous impact on today's business landscape. As a result of these developments, business productivity could exponentially increase. People can collaborate and share resources for everything from work to entertainment. Cloud computing makes global collaboration possible in an unprecedented way. China should look to these opportunities to continue the current growth trajectory. Businesses and individuals should anticipate the opportunities and the changes these technologies will bring.

Social media has a powerful role in giving Chinese users a voice. Until recently the government did not have an effective channel to collect public opinion, but social media now offers that chance. The government could harness this channel to realize a more harmonious society, not only collecting relevant information on public opinion but also participating in the conversation. Companies can use this feedback for products and service. Social media users are skewed toward the 15 to 35 age range - an age group critical to both government and commerce. As a channel of expression, social media offers more than anything China has had in the past.

At the same time, social media has provided important channels for government and companies to put their services and communications to the broader public. No channel of communication has ever been so efficient, and as a result a very large number of government and business participants occupy the social media space.

Transparency and immediacy are perhaps the most compelling features of social media. Traditional media outlets are regulated in such a way that prevents them from writing with the same candidness and openness as social media, and their speed of transmission is very slow in comparison. Good governance is a function of responsiveness and transparency, so in this respect, the government can use social media's transparency and immediacy to its advantage.

Now the question remains of the government's response. Social media is ubiquitous and only going to grow and the government must choose how it will respond. Social stability is the crux of the issue. If social media trends turn and begin to disrupt social stability or become infected with unhealthy content and fraudulent commercial activity, then it is critical for the government to regulate and supervise and, if necessary, intervene.

This is not yet the case, but the government may be tempted to pre-empt what it sees as an inevitable consequence of social media. Many on the panel argued against government regulation of social media at this time. It is such a new phenomenon that the consequences are not certain, so shutting down such a popular outlet could cause even worse problems. Some regard social media as an asset on which the government might capitalize to identify key issues in society. Social media offers opportunities the government could use to its advantage, and many panelists advised the government to get engaged with social media directly.

Information technology is a critical area of development for any economy that wishes to develop to developed nation status. Commercial, technological, and cultural achievement is now inextricably tied to information technology resources. Finding the right balances of freedom and regulation is a challenge for every government at every stage of development.

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**For emerging economies, the potential benefits of a properly regulated but highly adaptive and flexible information infrastructure - both the physical infrastructure and related services and regulations - are particularly important to achieve sustainable growth**



### A world of our own

Among the most incisive remarks of the "Young Leaders' Roundtable: Defining Happiness" was from Li Xiao Lin, Chairman of China Power International Holdings Ltd., who observed that one's "mental wellbeing depends on whether you have beliefs, a world of your own, a pursuit of noble ideas, societal benefits, and your own relationships". Once material needs are met, what is next? Each person seeks to make the most of what they can be. Asian societies and governments are seeking ways to make this achievable for people in all classes.

The entire premise of the BFA Annual Conference 2012 discussion of society and culture was based on the premise that when people's basic physical needs are satisfied, they still long for fulfillment. Some seek it in their careers, others in creative expression, and still others in the continuous pursuit of knowledge. As personal measures of success, these subjects were also addressed in BFA sessions.

At the "Women Leaders' Dialogue: Removing Obstacles to Success", panelists were optimistic about the future for women in leadership positions while acknowledging what remained to be done. Each panelist being a leader herself, together they attributed their own successes to persistence, optimism, confidence, and a healthy state of mind. Although a glass ceiling to women's professional success remains, it was argued that such barriers would fall when a critical mass of women in leadership positions is reached. There are already many women leaders to be found in Asian enterprises and governments. These women encouraged others to seek out role models, mentors, and sponsors for guidance to achieve their own goals.

### "Women Leaders' Dialogue: Removing Obstacles to Success" session summary

The "Glass Ceiling" for women in reaching leadership positions is a global issue. Some barriers to female leadership include the fact that some young women do not have enough self-confidence to push themselves forward, meet societal demands, and overcome unconscious bias against female leadership. It is important to create enough critical mass of women in leadership roles.



Yuan Ming (Moderator)  
Professor  
Peking University



Cecilia Attias  
Founder & President  
Cecilia Attias Foundation for Women



Frances Seymour  
Director General  
Center for International Forestry Research



Mary Ma  
Chairman  
Boyu Capital



Susan Greenwell  
VP & Head of International Government Relations  
MetLife



Cheung Yan  
Chairman  
Nine Dragons Paper



Education beyond what is needed for career success can be another way of uncovering personal potential. While basic education most often supplies the skills needed to provide for oneself and one's family, higher education is another means by which individuals often pursue noble ideas and aspirations. In the "Ideas Festival: The Fundamentals of Education" session, it was observed that education is not simply a training ground for professional skills, but rather a place for students to explore personal and professional interests, nurture curiosity, and develop critical thinking skills. Often education above and beyond what one needs to succeed in a career leads to innovation and discovery that unexpectedly aids in career success. Institutes of higher education should do everything possible to enable people of all ages in this pursuit by offering a broad curriculum encompassing the liberal arts in addition to strictly quantitative and technical study programs.

Finally, the creative arts comprise the most visible ways in which individuals reach beyond the ordinary to distinguish themselves, while coloring and crafting worlds for others to enjoy. The panel session "Unleash the Creative Potential of Asia" - new this year at BFA - addressed creativity in a seemingly whimsical, but ultimately enlightening way by answering the question, "If you could go back in time, which dynasty would you prefer to live in and why?"

In the ensuing creative discussion of creativity, panelists spoke of the Ming dynasty's free exchange of ideas with Western cultures, the Tang dynasty's promotion of humanity and individualism, and the legacy of art and literature left by the Qing Dynasty. In selecting for himself the Spring and Autumn Period and contemporary emergence of both Confucius and Daoism, Liu Heng, Chairman of the Beijing Writers Association, reminded us how competition among different ways of thinking often resets the discourse, helping the world to move forward. Freedom to create allows gifted people to create a heritage for future generations, and enriches the societies in which they live.

Despite personally-defined success being raised at more than one session on the agenda at BFA Annual Conference 2012, it was broadly understood that there is no yardstick for measuring each individual's path to contentment. Contentment is the ultimate individual issue. It is up to each person to decide for herself or himself what happiness is, and how best to pursue it. The direct impacts of government and private capital are primarily limited to broad measures benefiting society as a whole. The government's task is to provide a level playing field for all and support for those in need, while planning and building the infrastructure demanded by advancing societies in the 21st century. The rest is up to us as individuals. The consensus at the Annual Conference was that Asians will make the most of the opportunities before us, because Asian nations have foundations with great historical depth and rich cultural attainments, on one hand, and yet are currently being swept up in the fast economic development that the last decades have brought, on the other hand. That combination of rich heritage and exciting change is what makes the social and cultural potential of Asia so powerful.

#### **"Unleash the Creative Potential of Asia" session summary**

China should increase its expenditure on art, science, and technology. Open mindedness is the first step to innovation. Tradition and innovation are two tracks on the same road when considering how art will be created and consumed – as something from history, or something to take into the future, or a bit of both. What kind of art will be created to inspire future generations, and what is the role of creative arts in a modern society?

# The next decade

The BFA Annual Conference 2012 formally began the Forum's second decade. It came at a time when China and Asia face significant inflection points in their growth, model changes that will move the region into a sustainable position of prominence and influence in the global economy. As demonstrated in this report, the discussions were broad ranging, dealing with the full range of issues from enterprise to national to regional then global scope, and bearing on everything from the health of economies to the potential for individual happiness.

All the world's regional blocs are complicated, involving both competition and cooperation among countries with different levels of development, life styles, languages, cultural backgrounds, social and political systems, core strengths, and resources situations. Asia as a region is certainly no less complicated than the Eurozone or the Americas, but in this moment of fast growth and sharp focus, all the leaders in the region acknowledge the imperatives to strive for more open communication and cooperation toward common goals.

That is precisely the intent and purpose of the BFA on the eve of its second decade, to promote communication and cooperation among Asian nations, with an eye toward finding the benefits of their common elements and developing the synergies of their different yet complementary ones. In the wide ranging interactions among leaders participating in this Annual Conference, whether touching on food, finance, energy, or personal happiness, the search for such benefits was their common purpose.

In that common purpose, participants rated this year's Annual Conference a great success and a contribution toward a more stable and sustainable region and world.

# Appendix: Boao Forum for Asia Annual Conference 2012 session summaries

Below are summaries of the participants and select discussion points for the major formal sessions of the Forum, listed in the order they were scheduled.

## Young Leaders Roundtable: Defining Happiness

### Moderator:

Rui Cheng Qang, Director and Anchor, China Central Television

### Roundtable Participants:

Yang Bin, Tsinghua SEM Senior Associate Dean and Director of Center for Leadership Development and Research

Shankar Vanavarayar, Configuration of Indian Industry (CII) Young Indians

Liu Qiang Dong, Founder, 360buy Group

Yu Zhu Yun, Chairman, CHG Group

Xie Zheng Yi, Party Secretary, The CPC Yangzhou Municipal Committee

Witman Hung, Executive Vice President and Co-Founder, Next Horizon Company Ltd

Roger Barnett, Chairman and CEO, Shaklee Corporation

Li Xiao Lin, Chairman, China Power International Holding Ltd.

Leif Johansson, Chairman, Ericsson

Jennifer Qin, Partner, Deloitte Touche Tohmatsu CPA Ltd.

Ramkin Ashok Shetty, Saudi Basic Industries Corporation

Albert Ting, Chairman, CX Technology

Paul Haenle, Director, Carnegie-Tsinghua Center for Global Policy

Lin Yu, CEO and Co-Founder, Netqin Mobile, Inc.

Yao Ming, Former Houston Rockets Center; Founder, Yao Ming Foundation

Hiu Ng, Co-Founder and Chairwoman, 51Sim and 51Give; Chairman & CEO, FairKlima Capital Company Ltd.

Lu Chuan, President, Chuan Films

A consensus emerged that material things did not necessarily improve the sense of happiness and safety for the younger generation. When basic necessities are met, happiness is the result of intangible aspects of personal fulfillment that are best left for individuals to decide. Public policy should be aimed at meeting the basic needs and then providing equality of opportunity to all persons for personal development in ways they find fulfilling.

## China CEO Roundtable

### Moderators:

Brian Derksen, Global Deputy CEO, Deloitte Touche Tohmatsu Limited

Robert Kimitt, Chairman, Deloitte Center for Cross-Border Investment; Former Deputy Secretary of the Treasury, USA

Ken Dewoskin, Deloitte China Research and Insight Center, Chairman of the Editorial Board

The RMB will continue to become increasingly important worldwide. The government is piloting other outbound channels to mitigate the accumulation of more Forex. Diversification of financial services is inevitable, and foreign financial services institutions will assist continuing market reforms. Policy intends to shift China's growth model to dependence on household consumption. Though labor and input costs continue to rise in the manufacturing sector, technology and productivity gains can maintain competitiveness. Consumer businesses are optimistic because of government policy and urbanization and are already thinking ahead to build their brand in second and third tier cities.

## Private Sector Roundtable

### Moderators:

Chris Lu, CEO, Deloitte China

James Chen, Managing Partner, National Clients and Markets, Deloitte China

### In the presence of:

Bao Yu Jun, Chairman, All-China Private Enterprise Federation

Guo Geng Mao, Governor, the People's Government of Henan Province

The outlook for the private sector for 2012 remains optimistic, though it must adapt to changes through innovation, branding, growth, and government support to compete with SOEs. The private sector is very important for the future of China and for Asia as a region. Entrepreneurs are focusing on finding and retaining talent, as well as continuous improvement of their management and innovation processes will be important for its future success.

## Energy & Resources: A Supply-Demand Dialogue

### Moderator:

Juliana Liu, Hong Kong Correspondent, BBC News

### Panelists:

Mohamed Al-Mady, Vice Chairman and CEO, SABIC

Fu Cheng Yu, Chairman, Sinopec

Pan Wen Yen, Chairman, CTCI Foundation

Neville Power, CEO, Fortescue Metals Group Limited

Bill Richardson, Former Secretary of Energy, USA; Chairman, APCO Worldwide

Artem Volynets, CEO, EN+

Zhang Guo Bao, Chairman, Advisory Board, National Energy Commission

Energy diversification is the key to achieving energy security in the 21st century, and it should be a top priority for all countries, especially developing countries. Markets should expect volatile oil prices in the coming months as a result of global economic instability, turmoil in Europe and heightened tension with Iran. Saudi Arabia (among others) has committed to producing more oil if necessary to ease tension in the market.

## Breakfast Session: International Cooperation on Chronic Disease

### Moderator:

He Zhen Hong, President, Chinese Entrepreneur Magazine

### Speaker:

Chen Zhu, Minister of Health, the People's Republic of China

China faces high rates of non-communicable diseases (NCDs), accounting for 83.3 percent of deaths in 2008, and is working to reduce these rates. China believes basic healthcare is a government responsibility and has expressed commitment to healthcare reform. Implementation of healthcare reform is in progress. Recent success includes basic health insurance for 1.295 billion people, from 15 percent to 95 percent. The government supports private investment in the healthcare industry.

## Dialogue with Henry Paulson

### Moderator:

Zhou Wen Zhong, Secretary General, Boao Forum for Asia

### Speaker:

Henry Paulson, Former Treasury Secretary, USA

According to Henry Paulson, former Treasury Secretary of the United States, the 2008 financial crisis has taught the importance of instilling market discipline and not relying on regulation alone to avoid the problem of a financial crisis. Capital market development, including market-determined RMB and a decreased role of the state is in the best interest of the Chinese economy.

## Opening Plenary

### Moderator:

Zhou Wen Zhong, Secretary General, Boao Forum for Asia

### Welcoming Remarks:

Yasuo Fukuda, Chairman, Boao Forum for Asia

### Keynote Speeches:

Li Ke Qiang, Vice Premier, State Council, the People's Republic of China

Mario Monti, Prime Minister, the Republic of Italy

Karim Masimov, Prime Minister, the Republic of Kazakhstan

Syed Yusuf Raza Gillani, Prime Minister, the Islamic Republic of Pakistan

### Corporate Representatives:

Par Ostberg, Executive Vice President, Volvo Group Truck Joint Ventures

Andrew Forrest, Chairman, Fortescue Metal Group Limited

Yuan Reng Guo, Chairman, Kweichow Moutai Co., Ltd.

Sound and sustainable development is the key focus of this year's forum. Emerging economies will play a greater role in the aftermath of the global financial crisis. Growth will require open, sustainable, and peaceful development. Government's task is to create a civil society in which all people can engage in activities favorable to growth.

## Employment and Growth

### Moderator:

Qin Shuo, Editor-in-Chief, China Business News

### Panelists:

Fan Gang, President, National Economic Research Institute, China

Stephen Groff, Vice President, Asian Development Bank

Rajiv Kumar, Secretary General, FICCI

Akio Mimura, Chairman, Nippon Steel Corporation

Taizo Nishimuro, Adviser to the Board, Toshiba Corporation

Edmund Phelps, Nobel Prize Laureate (2006)

Robert Zoellick, Former President, World Bank

In terms of economic growth, Asia and especially China face the issue of global rebalancing, and policy reforms need to be made to move the economy up the value chain, reduce reliance on exports, and increase domestic demand. Small and Medium Enterprises ("SMEs") are already the engine of the service sector and are going to be the engine of job growth. Creative ways need to be identified to finance SMEs because that's going to be the engine of pushing the Chinese economy forward. Panelists agreed that job creation is one of the most important factors in economic policy. Education and innovation are essential for job creation as well.

## **Aging Economics: “Grey” Opportunities in Asia**

### **Moderator:**

Hu Shu Li, Editor in Chief, Caixin Media

### **Panelists:**

Kent Calder, Director, Reischauer Center of East Asian Studies, John Hopkins University

Chen Zhi Wu, Professor of Finance, Yale University, School of Management; Chief Advisor, Pernal Group

Mark Machin, Senior Vice President, Canada Pension Plan Investment Board

John Quelch, Vice President and Dean, China Europe International Business School

Malvinder Singh, Executive Chairman, Fortis Healthcare

Shoei Utsuda, Chairman, Mitsui & Co.

By 2020, China’s population will peak and begin to decline. Life expectancy in China has doubled since World War II, and China could have as many as 350 million people over the age of 65 by 2020. Because of the One-Child Policy, China’s fertility rate is down to 1.4. China will experience a seismic population shift to a much “greyer” population, which poses social and economic threats that the government must address. The most concerning aspect of the demographic shift is the enormous burden placed on the smaller generation entering the workforce.

## **ASEAN Luncheon Session: ASEAN Free Trade Area and Regional Economic Integration**

### **Moderator:**

Yang Rui, Anchor, CCTV

### **Panelists:**

Tun Abdullah bin Haji Ahmad Badawi, 5th Prime Minister, Malaysia

Imron Cotan, Ambassador, Embassy of Indonesia to the People's Republic of China

Goh Chok Tong, Emeritus Senior Minister, Singapore

Hoang Trung Hai, Deputy Prime Minister, Vietnam

Kittiratt Na Ranong, Deputy Prime Minister & Minister of Commerce, Thailand

Mikio Sasaki, Former Chairman of the Board, Mitsubishi Corporation

Yu Jian Hua, Assistant Minister of Commerce, China

Zheng Jun Jian, Secretary General, China ASEAN Expo Secretariat

The ASEAN FTA was formed to unify a diverse region, with the aim of achieving a common community with shared goals. It is important for all ASEAN members to strive to bridge the wealth disparity between ASEAN countries, and they have laid out ambitious plans for a single market to be in place by 2015. The panelists agreed that following along this path will lead to greater opportunities for all member countries.

## Medical Tourism and International Cooperation on Chronic Disease

### Moderator:

Jiang Xiao Song, Chairman, Chambow Group Co., Ltd.

### Panelists:

Jean Claude Baumgarten, Vice Chairman, World Travel and Tourism Council

Chen Zhu, Minister of Health, the People's Republic of China

Li Jian Ge, Chairman, China International Capital Corporation

Li Shen Min, Vice President, Chinese Academy of Social Sciences

Li Zhen Fu, CEO, GL Capital Group

Shao Qi Wei, Chairman, China National Tourism Administration

Jiang Si Xian, Vice Governor, Hainan Provincial People's Government; Board Member, Boao Forum for Asia

Wei Jian Guo, Secretary General, China Center for International Economic Exchanges

The medical tourism market is very large, and this is the right time to move into this market. According to the China Tourism Research Institute, the medical tourism market is a \$750 billion market, and continues to grow rapidly. Medical tourism not only depends on the quality of medical services, but also the establishment of institutional mechanisms, and Hainan has the potential to be a medical tourism island.

## Sovereign Debt Crises and the Risk of Global Recession

### Moderator:

Steve Dahllorf, President & CEO, Asia Pacific, Ogilvy PR Worldwide

### Panelists:

John Chambers, Chairman, Sovereign Ratings Committee, S&P

Stanley Fischer, Governor, Bank of Israel

Liu Ming Kang, Former Chairman, China Banking Regulatory Commission

Toshiro Mutoh, Chairman, Daiwa Institute of Research

William Rhodes, Senior Advisor, Citi Group

Isaac Souede, Chairman and CEO, Permal Group

Zhang Qi Zuo, Vice President, Chengdu University

A Eurozone crisis seems to have been averted. Surplus countries as well as deficit countries have fiscal challenges and therefore need to work together. There were questions as to whether the current policies in the Eurozone are sufficient to drive the necessary restructuring, as Europe struggles to keep the Euro afloat. Systemic reforms are needed as well as international coordination, and Asian economies need to be ready to face the impact of a slowdown in European economies.

## Rise of the Asian Middle Class and Changing Consumer Behavior

### Moderator:

Stephen Engle, Reporter, Bloomberg Television

### Panelists:

Chen Shuh, Chairman, Greta Securities Market

Fan Bi, Deputy Director General, Research Office, State Council

Rick Kash, Vice Chair, Nielsen Group

G V Sanjay Reddy, Chairman, CII (Southern Region); Vice Chairman, GVK Group

Ren Xue Feng, Vice Mayor, Tianjin Municipal People's Government

A shift from an export-led economic model to one of domestic consumption will raise new public policy issues and perhaps help to resolve others. A rising middle class means greater affluence and more demand for luxury goods. But at the same time, consumers' decisions are influenced by their economic level and background, so it is important to consider which levels of the middle class you are trying to address.



## **Auto Outlook in the New Normal: Great Opportunities and Great Risks**

### **Moderators:**

Xie Wei Lie, Senior Consultant, Global Times

### **Panelists:**

Gregoire Olivier, Executive Vice President, PSA Peugeot Citroen

Par Ostberg, Executive Vice President, Volvo Group Truck Joint Ventures

Katsuaki Watanabe, Senior Advisor, Former CEO, Toyota Motor

Zhang Fang You, Chairman, Guangzhou Automobile Group

Zhang Sui Xin, Executive Vice President, Volkswagen Group China

Between its population and economic growth, China offers unique growth opportunities that no automobile company can afford to bypass. Traditional automobiles and green cars will be important products for the Chinese market. China has 1.3 billion people, among 1.3 billion; there are about 100 million cars. This means compared with average of the rest of the world, China has a dramatically lower level of car ownership per capita, with a 13:1 ratio. Growth is promising, but companies must account for a changing landscape. Labor costs and supply chains will be important factors for MNCs to consider as they invest in China.

## **CEO Brainstorming: Global Investment Climate Update**

### **Chairman:**

Henry Paulson, Former Treasury Secretary, USA

### **Moderator:**

Xiang Bing, Founding Dean, Cheung Kong Graduate School of Business

The global investment climate has been affected by the recession, and recently the IMF lowered its 2012 global growth projections from 4 percent to 3.25 percent. From a private sector perspective, the issue of global trade and FDI are key. Harmonization on financial services and environmental goods and services, and the ability to take technology in and out of countries are important to private sector globalization. Reciprocity between countries in terms of FDI is important, but taking into account a country's stage of development.

## **Addressing Income & Wealth Inequality**

### **Moderator:**

Jin Li Ping, Executive Editor, CAIJING

### **Panelists:**

Richard Boucher, Deputy Secretary General, OECD

Tun Abdullah bin Haji Ahmad Badawi, 5th Prime Minister, Malaysia

Mohammad Javad Mohammadzadeh, Vice President, Iran

Qin Xiao, Chairman, Boyuan Foundation

Junichi Ujiie, Senior Advisor, Former Chairman, Nomura Holdings Inc.

Shea Jia Dong, Chairman, Taiwan Financial Services Roundtable; Chairman, Taiwan Academy of Banking and Finance

Although income and wealth disparity are a natural part of the process of development, there are certain things governments can do to influence trends and manage risks. Two of the most obvious ones include improving and focusing the education system and labor laws to equip people with the right kind of skills for the job market. Another challenge for governments is to look carefully at tax expenditure and to spend time periodically to adjust tax codes.

## **The Future of Asian Cities**

### **Moderator:**

Zhang Xin, CEO and Co-Founder, SOHO China

### **Panelists:**

Richard M. Daley, Former Mayor, Chicago

Guo Wei, Chairman and CEO, Digital China

Ding Ting Yu, Vice Mayor of the City of Taipei

Leif Johansson, Chairman, Ericsson

Hitoshi Saito, Executive Managing Director, Mitsui Real Estate

Smart cities - urban areas enhanced by investment in human and social capital, and communications infrastructure - can include technology for telecommuting, cloud computing, and the integration of public transit and communications networks. Urbanization also presents challenges, including transportation and energy efficiency. Alternatives to automobiles for transport such as public transportation that is available, safe, affordable, and even connected by information technology, are crucial keys.

## **Transformation of Emerging Economics: Moving Up the Value Chain**

### **Moderator:**

Song Li Xin, President, Talents Magazine

### **Panelists:**

Brian Derksen, Global Deputy CEO, Deloitte Touche Tohmatsu Limited

Kenji Kajiwara, Senior Managing Executive Officer, Sumitomo Corporation

Liu Ji Ren, Chairman and CEO, Neusoft Corporation

Gary Locke, US Ambassador, former Secretary of Commerce

Shao Ning, Vice Minister, State Assets Supervision and Administration Commission, State Council, the People's Republic of China

Ramadorai Subramanian, Vice Chairman, Tata Consultancy Services

Emerging markets can no longer simply rely on the export of low-end manufactured goods; both manufacturing and service industries have an important role to play. Emerging economies face some significant challenges including the need to secure talent and put in place sophisticated global networks. China's move up the value chain is seen as inevitable, but it is not without risks. To achieve success in this, large scale investments in innovation and R&D may prove vital, but it must be fairly and wisely used.

## **Life Sciences: Driving the Next Wave of Technology Revolution**

### **Moderators:**

Hu Xiang, Vice President, Chinese Industry and Innovative Technology Strategic Alliance of Stem Cells and Regenerative Medicine

Poon Wai Sang, Chairman, Specialty Board in Neurosurgery

### **Panelists:**

Chan Wai Yer, Director of School of Biomedical Sciences, Chinese University of Hong Kong

Cheng Jing, Member of the Chinese Academy of Engineering

Ellis Rubinstein, President, New York Academy of Sciences

Geng Yong Jian, Professor of Medicine (Cardiology), University of Texas Medical School at Houston (in place of his colleague James Willerson)

He Wei, Director General of Department of Medical Sciences Technology and Education in Ministry of Health

Stephen Lam Sui Lung, Former Chief Secretary for Administration, Hong Kong SAR

Liu Chi, Office of National Major Project of the Ministry of Science and Technology

Pei Gang, President, Tongji University; Member, Chinese Academy of Sciences

Owen Rennert, Head, Laboratory of Clinical Genomics, National Institute of Child Health and Human Development (NIHCD)

Neil Shen, Founding & Managing Partner, Sequoia Capital China

Michael Spence, Vice Chancellor & Principal, University of Sydney

Zeng Yi Xin, President, Peking Union Medical College

Life sciences are an engine for economic growth, a major contribution to social development, and a significant platform to advance the world economy. Government, academic institutions, private sector and venture capital all have roles to play. Other countries, especially the United States, are spearheading initiatives between institutions, corporations and universities to accelerate medical innovation. China should join these efforts and instigate similar private/public partnerships within China.

### **Roundtable: Made in Asia -The Next Step Forward**

#### **Moderator:**

Ji Bin, Editor-in-Chief, Outlook Weekly

#### **Discussion Leaders:**

Paul Bennett, Chief Creative Officer, IDEO

Dong Ming Zhu, Vice Chairman and President, GREE Electric Appliances

Shinji Fukukawa, Chairman, Machine Industry Memorial Foundation

He Zhen Lin, Vice President, SANY Group

Hu Zhen Yu, President of Global Industry Promotion Center of China Fortune Land Development Co., Ltd.;  
Founder, China Industry

Lee Yoon Woo, Executive Advisor and Former CEO, Samsung Electronics

Li You, Executive President, Ufida Software Co., Ltd.

Lin Zuo Min, President, Aviation Industry Corporation of China

John Rice, Vice Chairman, General Electric

Shi Zheng Rong, Chairman and CEO, Suntech Power

Jean Pascal Tricoire, President and CEO, Schneider Electric

Wei Jia Fu, Chairman, COSCO

Yu Da Hai, Member, Executive Board, Evonik Industries AG

Global recession and rising manufacturing costs are posing new challenges to the Asian manufacturing industry, all following the "Asian Model." On a country level, different regions in Asia have their own competitive advantages and the region would benefit from enhanced cooperation. At a company level, cross-company collaboration is valuable to stimulating the economy. Nurturing innovation and cooperation, improving the efficiency of the supply chain through technology and expertise, and moving up the value chain are important to maintaining the key role of manufacturing in Asia.

## **Globalization versus De-Globalization**

### **Moderator:**

Victor Fung, Chairman, the Li & Fung Group

### **Panelists:**

Michael Andrew, Chairman, KPMG International

Carlos Gutierrez, the 35th Secretary of Commerce, US

Peter Mandelson, Former First Secretary of State, UK

Indra Nooyi, Chairman and CEO, PepsiCo

Arthur Sulzberger Jr., Chairman and Publisher, New York Times

Wu Guo Di, Chairman, CIEG

Panelists from government and business agreed that globalization is inevitable and should be embraced for sustainable growth. Governments have to be pro-active in managing the benefits and costs of globalization and ensure trade, commerce and industrial policies and the education system are moving in positive directions with the times.

## **India and Global Growth: Outlook for 2012–2016**

### **Moderator:**

T. N. Ninan, Chairman and Editorial Director, Business Standard

### **Panelists:**

Montek Singh Ahluwalia, Deputy Chairman, Planning Commission, India

N. Chandrashekar, CEO and MD, Tata Consultancy Services (TCS)

R. V. Kanoria, President, Federation of Indian Chambers of Commerce and Industry

Li Dao Kui, Professor, Tsinghua University

Wei Jian Guo, Former Vice Minister of Commerce

Growth of 8.5 percent per year is a reasonable target for India, though it should provide inclusive growth while overcoming energy and resources constraints and improving infrastructure investment. Investment in India has increased from 5.6 percent in 2006 to around 8 percent in 2011. China and India face different challenges in respect of common issues and there are opportunities for shared investment using Chinese capital and Indian expertise.

## **Dinner Session: Asia in the Changing World – Moving Toward Sound and Sustainable Development**

### **Moderator:**

Zhou Wen Zhong, Secretary General, Boao Forum for Asia

### **Speaker:**

Yasuo Fukuda, Chairman, Boao Forum for Asia

### **Moderator:**

Rui Yang, Anchor, CCTV

### **Panelists:**

Andrew Forrest, Chairman, Fortescue Metal Group

Hoang Trung Hai, Deputy Prime Minister, Vietnam

Vuk Jeremic, Foreign Minister, Serbia

Karim Masimov, Prime Minister, Republic of Kazakhstan

Zheng Xin Li, Permanent Vice Chairman, China Centre for International Economic Exchanges

Robert Zoellick, Former President, World Bank

The Asian economy, which relies largely on trade and exports, will be affected by the slowdown in developed countries, which in turn will reduce growth in Asia to a degree. Asian economies, particularly China, are approaching the difficult phase of the middle income trap. There is the real challenge of increasing the value added for each individual as the economy moves closer to the technological frontier. Various changing patterns across Asia are set to influence future sources of global growth and necessitate structural reforms in Asia.

## **Cloud Computing, Mobility, and Social Media: Changing Business, Changing Life**

### **Moderator:**

Quentin Hardy, Technology Editor, the New York Times

### **Panelists:**

Martin Lau, President, Tencent Holdings Ltd.

Lee Kai Fu, Chairman and CEO, Innovation Works

Liu Dong Hua, Founder, ZH Island

Lu Shyue Ching, President, Cloud Computing Association in Taiwan

Rajeev Sing-Molares, Executive Vice President, Alcatel-Lucent

Zhang Ya Qin, Corporate Vice President, Microsoft Corporation

New Internet technology - cloud computing, mobility, and social media - has enormous impact on today's business landscape. As a result of these developments, business productivity could exponentially increase. People can collaborate and share resources for everything from work to entertainment. Cloud computing makes global collaboration possible in an unprecedented way. China should look to these opportunities to continue the current growth trajectory. Businesses and individuals should anticipate the opportunities and the changes these technologies will bring.

## **PE/VC Breakfast Session**

### **Moderator:**

Neil Shen, Founding Managing Partner, Sequoia Capital China

### **Speaker:**

Dai Xiang Long, Chairman, National Council for Social Security Fund, the People's Republic of China

In China, the Social Security Fund has been a major funder of PE, but it alone cannot provide sufficient funds for the needed restructuring and consolidation. Partnership is the best model for investment in PE funds, and the established model of using LPs to fund is good, because investors should not interfere in the management of funds. On the other hand, the typical 2 percent management fee should not be regarded as an ironclad rule.

## **Women Leaders' Dialogue: Removing Obstacles to Success**

### **Moderator:**

Yuan Ming, Professor, School of International Studies, Peking University

### **Panelists:**

Cecilia Attias, Founder and President, Cecilia Attias Foundation for Women

Cheung Yan, Chairman, Nine Dragons Paper

Susan Greenwell, Vice President & Head of International Government Relations, MetLife

Mary Ma, Chairman, Boyu Capital

Frances Seymour, Director General, Center for International Forestry Research

The "Glass Ceiling" for women in reaching leadership positions is a global issue. Some barriers to female leadership include the fact that some young women do not have enough self-confidence to push themselves forward, meet societal demands, and overcome unconscious bias against female leadership. It is important to create enough critical mass of women in leadership roles.

## Dialogue with Zoellick

### Moderator:

Zhou Wen Zhong, Former Secretary General, Boao Forum for Asia

### Speaker:

Robert Zoellick, Former President, World Bank

Over the past six to nine months, countries have used an extraordinary set of monetary policies to avoid the 'tail risk', a series of events in the late stages of recovery that could set the global economy back in a very serious way. The policies have focused on macroeconomic stability, as countries try to deal with their fiscal problems, their overspending and their debt. Trade liberalization remains key to driving growth across all regions. The Eurozone debt crisis should be contained as long as Spain and Italy can stick to their reforms. Asia has a difficult set of factors to navigate if it is to maintain its strong growth rates and achieve high income status.

## Reforming the International Monetary System: Direction and Roadmap

### Moderator:

David Marsh, Co-Chairman, Official Monetary and Financial Institutions Forum (OMFIF)

### Panelists:

Dai Xiang Long, Chairman, National Council for Social Security Fund, the Peoples' Republic of China

Geoffrey Riddell, Member, Group Executive Committee, Zurich Financial Services Ltd

Li Ruo Gu, Governor, ExIm Bank of China

Lawrence Greenwood Jr., Senior Managing Director, MetLife

Steve Howard, Secretary General, The Global Foundation

China continues on a path towards currency liberalization. In spite of several years of intense discussion, there remain fundamental flaws and systemic risks in the international monetary system. Systematic reforms from the Asian countries will assure a better monetary system. The global financial system is challenged to rebalance management of trade and investment from a uni-polar currency world to a multi-polar one. In a multi-polar world, coordination among the US dollar, the Euro and the RMB is essential.

## Informal Lending and Deregulation of the Banking Sector

### Moderator:

Lara Wozniak, Editor-in-Chief, FinanceAsia

### Panelists:

Bao Yu Jun, Chairman, All-China Private Enterprise Federation

Wang Jing Bo, Chairman, NOAH

Liu Erh Fei, Managing Director, Bank of America Merrill Lynch

Ma Wei Hua, Governor, China Merchants Bank

Yoshihiko Miyauchi, Chairman and CEO, Orix Corporation

China's financial sector is looking at reforming and further opening up. Market demand that was not being met by the large SOE banks resulted in the rapid development of large, unregulated, informal networks of deposit and loan institutions. Additional models for greater diversity in the financial sector will be helpful to fill the gap between demand and supply for loans, particularly for SMEs. China is piloting village level banking in Wenzhou, including private banks and strengthening of rural credit unions and cooperatives.

## **Ideas Festival: The Fundamentals of Education**

### **Moderator:**

Shu Fu Min, President and Editor in Chief, Xiao Kang Magazine

### **Panelists:**

Colin Dodds, President, Saint Mary's University

Jason Li, Executive Chairman, U.S.-China Partnership Committee

Michael Spence, Vice Chancellor & Principal, University of Sydney

Zhang Xin Sheng, Former Vice Minister of Education, China Education Association for International Exchange

Zhu Min Shen, Principal, Top Education University

Policymakers should carefully consider the purpose of the university, and that purpose should drive admissions process, curriculum selection, and university systems. Education is worth the 5 percent of GDP countries are investing on average throughout the globe. Emerging economies like China and India have made education a priority at the onset of their economic reforms. Education reform may be the most important step in achieving many goals of development in Asia.

## **Cooling off the "Hot Money"**

### **Moderator:**

Deborah Kan, Executive Producer, Asia, Wall Street Journal

### **Panelists:**

Paul Chiu Cheng Hsiung, Chairman, SinoPac

Jin Li Qun, Chairman, Board of Supervisors, China Investment Corporation

Robert Kimmitt, Chairman, Deloitte Center for Cross-Border Investment; Former Deputy Secretary of the Treasury, USA

Li Dao Kui, Professor, Tsinghua University

Long Yong Tu, Former Vice Minister, MOFTEC, China

Tim Pryce, Founder & Chief Executive Officer, Terra Firma

Quick inflows and outflows of speculative capital, or "hot money" into Asia raise concerns about financial and economic turbulences. The IMF has urged Asian economies to do something about hot money, as Asia has seen the biggest turnaround in capital flows ever known. However, Asia, and in particular China, is not overly vulnerable to these large inflows of capital according to the panel, in part due to the huge foreign exchange reserves held within China and the overall size of the economy. A greater role of the RMB abroad would reduce China's vulnerability to hot money. There are many factors which are governing the pace at which the RMB moves to internationalization.

## **Soft Landing: Tools Available for Emerging Economies**

### **Moderator:**

Simon Cox, Asia Economics Editor, the Economist

### **Panelists:**

Fred Hu, Chairman and Founder, Primavera Capital Group

Sergei Katyrin, Chairman, Russian Chamber of Commerce

Edmund Phelps, Nobel Prize Laureate (2006)

Zhou Xiao Chuan, Governor, the People's Bank of China

Zhang Yu Yan, Director, Institute of World Economics and Politics, China Academy of Social Sciences

A panel of economists and business leaders gathered to discuss soft landings and policy tools available in the emerging markets. Liberalization of capital controls is a structural reform and not a cyclical tool. The time for China to lift capital control has come. The direction of policy reform is to facilitate Chinese enterprises and residents to make overseas investment. Central bank should only control the basic interest rate and let the market determine other rates, such as interest rates for savings and borrowing.

## **World Economy 2012 – Certainties and Uncertainties**

### **Moderator:**

Zhang Yan Sheng, Director, Institute for International Economics, NDRC

### **Speaker:**

Zeng Pei Yan, Vice Chairman, Boao Forum for Asia

### **Panelists:**

Montek Singh Ahluwalia, Deputy Chairman, Planning Commission, India

Stanley Fischer, Governor, Bank of Israel

Carlos Gutierrez, 35th Secretary of Commerce, USA

Wu Hong Bo, Economic Advisor to the Secretary General, Boao Forum for Asia

Zhang Xiao Qiang, Vice Chairman, NDRC

Again this year, as in the past three years, discussion about the global financial crisis dominates when discussing uncertainties and certainties in the world economy for 2012. Debt and unemployment are risks for 2012. However, there have been positive signs in the past three months, including EU financial agreements, improvement in US investment, consumption, and employment figures, better-than-expected indicators from France and Germany, and BRICS agreement promoting bilateral cooperation. Asia must continue to integrate itself into the world, particularly in regards to global economic governance.

## **Capital Markets: Regulation, Innovation and Reform**

### **Moderator:**

Wang Bo Ming, Editor-in-Chief, Caijing

### **Panelists:**

Richard Attias, Chairman and CEO, Richard Attias and Associates

Tim Dattels, Partner, TPG

Fang Xing Hai, Director General, Financial Services Office, Shanghai

Li Jian Ge, Chairman, China International Capital Cooperation Limited (CICC)

Schive Chi, Chairman, Taiwan Stock Exchange

Wang Dong Ming, Chairman, CITIC Securities

Zhuang Xin Yi, Vice Chairman, China Securities Regulatory Commission

Chinese capital markets are undergoing a major transition and rules need to be customized to fit current and changing markets. Better regulation is needed to allow Chinese companies to invest domestically and restore investor confidence in markets. In China's growth story, it is important to allow the market to play a much bigger role and assure quality, transparent reporting of performance.

## **Philanthropy: Transparency, Accountability & Public Trust**

### **Moderators:**

Yang Lan, Chair, Sun Media Group and Sun Culture Foundation

### **Panelists:**

Chen Fa Shu, Chairman, Newhuadu Group

Andrew Forrest, Chairman, Fortescue Metal Group Limited

Jet Li, Founder, One Foundation

Shih Jue Pei, Secretary General, Buddha's Light International Association

Wang Zheng Yao, Dean, One Foundation Philanthropy Research Institute, Beijing Normal University

Amy Zhou, Ex-executive President and Global Director, One Foundation

China's philanthropy is less developed as a result of cultural, legal, and institutional barriers. The lack of public trust is a serious issue that the philanthropic sector must address. With events like the Sichuan earthquake, the need for improved philanthropic effort is becoming more obvious to the Chinese public and government.



## **BFA Cross-Straits Business Roundtable: To Jointly Create New Prospects for Healthy and Sustainable Cross-Straits Economic Cooperation**

### **Mainland side:**

Dai Xiang Long, Chairman, National Council for Social Security Fund, the People's Republic of China

### **Taiwan side:**

Fredrick F Chien, Senior Advisor, Cross-Straits Common Market Foundation

The relationship between The Mainland and Taiwan is increasingly characterized by closer trade ties, communications and a synchronized economic cycle. The increased synchronicity will allow a greater collaboration on monetary policy enabling a coordinated response to global pressures. The benefits of ECFA are already being realised with reports suggesting that significant headway has been made in a short space of time since the signing of the agreement. However, progress has been slower than hoped in the integration of the financial sector.

## **Boao TV Debate: Real Estate – Embracing an Era of Great Changes**

### **Moderator:**

Ma Hong Man, Anchor, CBN TV

### **Panelists:**

Liu Jing, Associate Dean, Cheung Kong Graduate School of Business

Liu Xiao Guang, Chairman, Beijing Capital Land Co., Ltd

Zhang Yu Liang, President, Greenland Holding Group

Zheng Xin Li, Permanent Vice Chairman, China Centre for International Economic Exchanges

Real Estate plays a very significant role in the Chinese economy, and policy objectives in the government's regulation of the sector are changing. In the future, companies and citizens will face a very different housing environment than they have seen in the last decade, as "austerity" policies objectives will have an impact on housing prices in China and also disrupt the open market. Structural reform is required to provide a stable market, viable developers, but affordable housing for citizens.

## **Unleash the Creative Potential of Asia**

### **Moderator:**

Liang Dong, Anchor

### **Panelists:**

Ang Jian, Chairman, Boao Asia Media and Entertainment

Feng Xiao Gang, Movie Director, Huayi Brothers Media Corporation

Hu Rong Qiang, Chairman, Avlight Kaixuan Group Co., Ltd.

Liu Chang Le, Chairman, Phoenix Satellite TV Holdings Limited

Liu Heng, Author

Yu Dan, Vice Dean, School of Arts and Communication, Beijing Normal University

Zhang He Ping, President, Beijing People's Art Theatre

China should increase its expenditure on art, science and technology. Open mindedness is the first step to innovation. Tradition and innovation are two tracks on the same road when considering how art will be created and consumed – as something from history, something to take into the future, or a bit of both. What kind of art will be created to inspire future generations, and what is the role of creative arts in a modern society?

## **Media Leaders Roundtable: Road Ahead for Social Media in Asia**

### **Moderators:**

Alex Wan, Independent Media Advisor

Yang Rui, Anchor, CCTV

### **Panelists:**

Caitlyn Chen, Editor in Chief, Tencent

Cheng Jian Guo, Deputy General Manager, Caijing and CEO, Caijing

Simon Cox, Asia Economics Editor, the Economist

Henry Han, Founder and CEO, VIVA Mobile Media

He Zhen Hong, President, China Entrepreneur Magazine

Hu Zheng Rong, Vice President Communication University of China

Huang Li Lu, President, Beijing Zhisland Information and Technology

Ellana Lee, Vice President and Managing Editor, CNN Intl AP

Peng Li, Chief Editor, West China Metropolis Daily

Wang Shuo, Managing Editor, Caixin Media

Lara Wozniak, Editor in Chief, FinanceAsia

Anna Sue, Editor in Chief, NEW FORTUNE

Tao Yu, President and Editor-in-Chief, China Pictorial

Zhang Li Fen , Editor-in-Chief, FTchinese.com

Social media services are gaining popularity in China. Today, more than 300 million microbloggers use social media to express themselves online, and participation is expected to continue growing as the number of mobile users increases. The popularity of social media services raises significant questions about civil society, transparency and government regulations. Some argue that social media might disrupt the social stability necessary for continued economic growth. Many leaders feel that existing laws and regulations are sufficient, and social media actually offers an opportunity for the government, not a threat.

## **BFA Overseas Chinese Business Roundtable**

### **Moderator:**

Dhanin Chearavanont, Chairman, CP Group

Chinese businesses should develop their supply chains and should accelerate the introduction of new technology into traditional industries. The economic development of Asia provides good business opportunities. Due to the economic recession in Europe, companies with financial resources can take the opportunity to buy European brands. As living standards improve, and the population continues to age, a larger market in food, clothing, education, health care and other industries will bring business opportunities for enterprises. Talent remains a critical constraint, and accelerating its development an important task.



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As a non-government, non-profit international organisation, 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.

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