

Measuring Value[®] Inclusive development and national competitiveness



About the Boao Forum for Asia (BFA) Annual Conference 2011

The 10th anniversary of the Boao Forum for Asia Annual Conference which took place from 14 to 16 April and which was hosted by President Hu, not only exceeded previous years in number of participants but strategically and significantly included participation by the leaders of the major emerging economies - Brazil, Russia, India and South Africa - fresh from the Summit of the major emerging markets, now known as BRICS as it included South Africa for the first time, which was also hosted by President Hu in the nearby city of Sanya.

As the BFA heads into its second decade, this year's Forum marked a turning point in several ways. The first to be convened under the guidance of the new Secretary General, Zhou Wenzhong, former ambassador from China to the United States, the 2011 Forum had elevated diplomatic significance and reached beyond Asia toward global engagement.

The Opening Plenary of 2011 - Turning Point

The opening plenary this year saw assembled on the podium alongside President Hu Jintao the presidents or prime ministers of Russia, Brazil, South Africa, Spain, Republic of Korea, and Ukraine, as well as current Chairman of the Forum and Former Prime Minister of Japan Yasuo Fukuda.

There is broad significance in the changes in BFA Annual Conference we witnessed, as the Forum enters its second decade. While the focus remains Asia to a certain extent, China has brought into the discussion emerging economies from around the globe. This year attendance at the Forum focused on the BRICS, but the background discussion evolved around a concept of the E11, all major emerging economies that have a seat at the G20.

The participation at BFA Annual Conference 2011 has brought China into discussion with emerging economies from around the globe, put forward a concept of the E11, and signaled a more coordinated and pro-active presence of the BRICS and E11 in the global dialogue going forward

Secondly, the reports of the heads of state were balanced between reviews of their national conditions and proposals and commitments for closer cooperation among emerging economies in stabilising the global system and rebalancing growth. Seen in conjunction with the summit held the previous day, this shift in rhetoric signals a more coordinated and pro-active presence of the BRICS and E11 in the global dialogue going forward.

Thirdly, in almost every presentation there was a clear interest in development models, with considerable respect shown for what China has achieved in its reform process. All speakers advocated free and open trade and investment. In their visions of the future, the key theme was investment, investment in infrastructure, production assets, resource extraction, education, and social welfare. All speakers emphasised their commitment to green growth and their respect for the environmental and climate challenges the world faced.

There was a clear interest in development models which maintain control of a large fraction of national wealth generated, and channel that as investment capital, with a focus on infrastructure, production assets, resource extraction, education, and social welfare

In many respects, this was a celebration of the eminence China had achieved in the global economy, with a development model that marshaled national resources and consistently invested ahead of need, especially in infrastructure, fixed assets, and education. While every leader spoke of improving the living standards and quality of life for his/her citizens, driving growth through domestic household consumption and even foreign direct investment was not the most popular theme.

There was a recognition that the development of national economies has to occur within the new global framework

As China has demonstrated, and echoing throughout all the presentations, was a recognition that national development has to occur within the new global framework. The kinds of investment contemplated by the leaders focused on building and sustaining national competitiveness. The heartfelt goal of inclusive development notwithstanding, that means driving the wealth of nations and improvement of every citizen's conditions is a direct result of national competitiveness, among other nations, on the global playing field.

Focus on the Future - National Competitiveness and the Role of Governments

In a publication debuting at the 2011 Forum, the Institute of Boao Forum for Asia proposed its own analysis and ranking of the competitiveness of Asian nations, called the *Competitiveness Index of Asian Economies*. Coming less than a month after China formally ratified and publicised the comprehensive Twelfth Five Year Plan, this study highlights that domestic prosperity is determined by governments and it is achieved by making domestic markets competitive in international markets (a key point put forward by Michael Porter in his seminal works on competitiveness).

The focus on infrastructure and fixed asset investments by the BRICS leaders confirmed their acceptance of this viewpoint, which, *inter alia*, well describes what China has done. It is not an exaggeration to say we saw the embrace of a

proven, China-inspired development model by this important group of emerging market leaders.

Among the immediate implications is support for the idea that central governments should maintain control of a large fraction of national wealth generated, either directly or through state-owned enterprises, and they should channel that wealth as investment capital into production assets, transport and energy infrastructure, and even strategic stores of industrial resources, such as minerals and fossil fuels. A second implication is that government investment in society will tilt toward education, especially at the secondary and higher levels, rather than healthcare, retirement social security, or employment security.

The Institute's *Competitiveness Index of Asian Economies* strives to combine the "stock" part of the economy and society, including hard, measurable issues like national wealth and infrastructure investment, with an "incremental" analysis of prospects, focusing on soft assets such as human capital and innovation ability.

The index looks at five major classes of factors:

1. commercial and administrative efficiency
2. infrastructure
3. macro economy
4. social development
5. human capital and innovation

Under these five primary categories, 46 specific measures are arrayed and weighted according to materiality, sensitivity, stability, and accessibility.

How the Emerging Asian World Looks through the Index

The Asian region, as defined by the Index, includes not only East, Southeast, and South Asia, but stretches into Central Asia and the Middle East. So 35 economies at various stages of development are listed, including India among the BRICS, but not South Africa, Russia, or Brazil.

In overall competitiveness, based on 2010 data, the economy of the Republic of Korea is number one, followed by the economies of Taiwan, Japan, Singapore, and Hong Kong.

However the Chinese Mainland economy and that of India, the only BRICS measured, are 11th and 29th respectively in the index, indicating that while they are rising, they have yet to take the lead.

Inspiration and Implementation

The inspiring commitments articulated by the BRICS leaders at the BOAO 2011 plenary session opened a door to pursuit of a development model which has propelled China in the span of one generation from what was once arguably the world's poorest nation to the second largest economy in the world.

But at the same time, the Index highlights the challenges facing the BRICS and all emerging economies in realising the ultimate promise of development: stability and wealth for their people. The discussion confirmed an important role for government in achieving critical national competitiveness, fitting in light of the ratification of China's Twelfth Five Year Plan. At the same time, the Index noted that in terms of commercial and administrative efficiency, where the role of government policy and regulation is primarily measured, the Chinese Mainland and India ranked 22nd and 31st respectively in the field of 35. In social development, China was 31st and India was 35th.

The Asian leaders and BRICS leaders all affirmed the importance of communication, coordination, and common purpose moving forward. In the words of President Hu, "The people of Asia have a shared mission to promote common development and build a harmonious Asia." At the same time, also one by one, they made the point that among the Asian nations and the BRICS, circumstances differed markedly, in everything from social order, natural resources, cultural and linguistic backgrounds and diversity, to political models, levels of development, and even development goals. In this respect, they aligned with China's enduring statement on emerging economies and the theme of the BFA Annual Conference 2011, *Inclusive Development - Common Agenda and New Challenges*. The very core is that emerging nations face a win-win opportunity through cooperation, coordination, and communication, but within those common grounds each will develop according to each nation's own, unique situation and characteristics.

In the coming year we will see how the BRICS commitment to solidarity and the emerging economies as a group continues to develop. If they maintain a consistent level of cooperation and coherence they will be a strong force among nations shaping the new global order. If they move forward successfully with the development model venerated at the BFA Annual Conference 2011, it will have very significant implications for the global financial system, the world's most global multinational corporations, and the world's major financial markets and financial service providers.

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