上海论坛
Shanghai FORUM

上海论坛论2015论文与演讲精选集
复旦发展研究院丛书

复旦发展研究院
FUDAN DEVELOPMENT INSTITUTE

本书由复旦大学亚洲研究中心资助出版
This book is funded by Asia Research Center, Fudan University.

亚洲的责任：创新合作模式

Asia's Responsibility: Exploring New Approaches to Cooperation

袁堂军　张　怡　主编

复旦大学出版社

“上海论坛2015论文精选集”编委会

主　任

许宁生　复旦大学校长

魏小鹏　复旦大学校务委员会主任

朴仁国　韩国高等教育财团事务总长

丛书主编

刘承功　复旦大学党委副书记

委　员

（按姓氏音序排列）

薄　燕　陈诗一　陈志敏　丁　纯　范丽珠

范文仲　侯杨方　华　民　黄丽华　阚海东

刘春荣　彭希哲　苏长和　孙立坚　谭　红

王　蔚　王　曦　吴立波　吴心伯　尹翔硕

袁志刚　张　军　赵根明　ChoiByung-il

主　编

袁堂军　张　怡

执行编辑

丁常昕

编　辑

罗　倩　赵信敏　黄　昊　沈婵婧

Preface

Innovation and Development Mode Is the Responsibility of Asia

With the development of economic globalization, the international division of labor has transformed from the original horizontal labor division mode to the production chain and the value-chain mode of labor division. Under this new mode, European countries and other developed countries resort to the advantages of capital market and R&D, have evolved into the international financial and R&D and design centers, whereas China and other developing countries have become the world factory due to their advantage of cheap labor. Meanwhile, this process has enhanced the specialization of China and Southeast Asian countries in the production chain. Components are traded within regions and increase rapidly, and the majority of the final products are exported to the European countries. This kind of labor division mode promotes the rapid growth of Asia, but it is also a shock to the low-end industries in the developed countries like United States and Japan. The vulnerability of this mode was fully exposed in the global financial crisis in 2008 and its aftermath; severe overcapacity problems have appeared in some industries in China and countries in Southeast Asia because of the shrinking external demand. And the small and medium-sized enterprises in the US and Japan lost their competitiveness, resulting in high unemployment rate in the low-end labor market. Therefore, to deal with this problem, the US and Japan initiated the TPP strategy, which encouraged China to put forward the "One Belt and One Road" (B&R) strategy. The advantage of TPP is that it points out some new and high standard of global trade and investment rules like the pre-admission national treatment and the negative-list management mode. However, it does not take into account the situation of economies in Europe, the Middle East and Central Asia. It is marked by a geopolitical thinking, which counteracts the increasing impact of China development on neighboring countries. In comparison, the object of the B&R strategy is to bring the Middle East and Central Asia into the global value chain, through infrastructure development to connect countries of the Eurasian Continent. This may create a new production and consumption network to drive the growth of Asian and the global economy. The B&R is designed in line with the trend of the deepening division of labor in the global value chain, and has attracted worldwide attention in the situation that the global economic outlook remains uncertain.

From the global economic map, TPP targets at the Pan Pacific region, while the B&R covers Central Asia and the Middle and East Eurasia, the two strategies just form the two complementary economic circles, which are indispensable. The pre-requisite of high standard investment and trade rules in TPP reflects that the GVC will be the trend of economic globalization in future. But for most developing countries, it hardly seems to meet the requirements in the short or medium term. The B&R area is mainly composed of developing countries. Asian Infrastructure Investment Bank (AIIB) was set up for the purpose of solving the infrastructure financing gaps in the Asia Pacific region. It is potentially a key step to get the region involved into the system of global value chain. It seems that the B&R strategically takes more responsibilities than that of the TPP, in the meanwhile, it would face much more complicated issues and handle tougher challenges. The two major economic circles intersect in East Asia, from the duplicated region, towards the east, so we can shake hands with high-level economic integration of systems and standards and can dock TPP (Korea, Japan, Australia), and to the west, so we can merge with the B&R (and FTA) to promote trade and logistics. Therefore, it plays the roles of demonstration and linkage of multi-level, bilateral and multilateral rules. By means of multi-level value chains, Asia could upgrade regional cooperation rules from free trade up to investment liberalization, create new modes of cooperation, use the regional capital, labor, resources and other factors more suitably (efficacy) and effectively, to make the Asian production market and consumer market more active.

The establishment of AIIB, is a milestone to take the responsibility of innovative development. Admittedly, the World Bank and the Asian Development Bank (ADB) have made extraordinary contributions to Asian economic development through the official development assistance (ODA) in the past years. However, with the development of global economy, many of the shortcomings of traditional multilateral financial institutions have appeared, the leader becoming a stubborn conservatist hindering the structural adjustment and business transformation. The current development mode of the World Bank and ADB's is aiming at international aids and poverty alleviation. Its development concepts were defined by the developed countries within their own standards of marketing environments and social systems and it is based on grantee's social economic system, human capital, health care and other aspects of support and construction in grantees. Most of the financing is realized by issuing organizational bonds to private funds, therefore, the sovereign credit ranking, guarantee level and investment recovery rate have to be taken into account. As a result, the financing efficiency and financing scale could be highly restricted due to the market imperfections, political instability, religious customs, and different situation in developing countries, especially in Central Asia and Middle East countries.

On the other hand, AIIB is a kind of supplement to the current international economic order. China, as a leading representative of emerging economies, can get involved in the international affairs more deeply and widely, through AIIB in conjunction with the World Bank, IMF, ADB and other financial institutions. The main feature of AIIB is a new type of international financial institutions led by the developing countries, to overcome the drawback of traditional mechanism. It would be better to make new concepts and innovate financial business approaches. As a new multilateral financial institution, there is no doubt that AIIB should learn the experience from the existing institutions, look into an investment based on the social and environmental situations of the individual countries, take it as the mission and responsibility to seek high-standard, transparent and efficient operation processes and management system.

The South-South cooperation has sought for common development for almost 60 years. However, it was limited by the various situations of development in different countries and did not have the ability to solve the problem of capitals, and the effect of cooperative was not obvious. Nowadays, in the trend of the development of the global value chain division, China has become the link to the developed countries and neighboring emerging countries and has made remarkable achievements in economic development. With the economy volume exceeding $10 trillion, it could take the obligation to provide a financing platform dedicated to Asian development. Therefore, the AIIB should set up a new mode to promote South-South cooperation led by the developing countries and advocating the new concept of cooperation and mutual development. By considering the characteristics of developing countries and balancing the environmental protection and growth, it should also innovate the development model and financial business so that it can turn into an infrastructure investment and financing platform while selecting the projects and developing the rational

PPP mode.

The 2015 Forum Annual Meeting was the tenth anniversary of Shanghai Forum, a total of more than 700 political, business and academic elites and media representatives from all over the world gathered at Fudan University. Around the theme of "Asia's Responsibility: Cooperative Innovation Mode", the new situation and challenges faced by Asia in the future development against the background of globalization were discussed. During the meeting, the political, economic, social, environment, management and other fields were discussed in-depth through the sub forum discussion, roundtable dialogues and other high-end multiple forms, and the delegates provided policy advice and decision reference on "The Belt and Road", AIIB, FTA, aging, information society, etc. for the prosperity and development of Shanghai, China and Asia. It is agreed that in the aspect of innovating new framework on security cooperation, Asia still has a long way to go. As Asia's development, prosperity and security are necessary, and can promote each other, and in the face of complex challenges on security, Asian countries should corporate to maintain peace and stability in their own regions more effectively and make important contributions to international peace and security. Asia has high expectations. With the emerging economies generally entering into a period of adjustment, the declining growth rate of Asian economy has become a new norm. Asian countries should adhere to the principle of mutual benefit and win-win cooperation, strengthen and innovate the economic cooperation between Asian countries. Asian countries can take the new cooperation mode such as "The Belt and Road" construction as the starting point, make use of the new financing platform like the AIIB, speed up the construction of infrastructure and interconnection in Asian countries, further reduce the hardware and software barriers on trade and financial dealings, lay the foundation for the new motivation of economic development, accelerate the formation of the market integration, strengthen economic and financial cooperation between countries in different levels and various forms. In the aspect of participating in new initiatives in environmental governance, Asia is duty bound. While adhering to the path of sustainable development, Asia should strengthen cooperation on environmental protection and global climate change governance. While consolidating its long-term development foundation in the future it should also take the responsibility for international governance cooperation. Facing the world situation and the new economic situation in profound changes, Asia has wisdom, confidence and responsibility to develop a new way of cooperation for the world. The world can thus share prosperity and benefit from the innovation of Asia.

The consensus mentioned above was contributed by the domestic and international political, academic and media representatives and participants with their research results and serious thinking. These academic research papers studied many fields, including political, economic, social, energy and environment, public health issues, from multiple perspectives. They provided us valuable views and suggestions.

Tangjun Yuan
Center for Asian Economic Research
Fudan University
2016.04

Contents

Financial Links Between Europe, Russia and China as Key Elements in Building a New Growth Strategy

Jean-Louis Truel
Université Paris-Est Créteil
Vice-President Club Kondratieff

The 21th century is supposed to be the realm of globalisation. Although generally accepted, this view can and must be challenged. On the contrary one can argue that there is a revival of the National Systems of Economy, under a modernised form. The key challenges of the current geopolitical economic environment can be analysed as the emergence of new links between the national and regional systems of economy. We will consider the financial aspects of this emerging system of relations, with a specific focus on Europe, Russia and China, and see whether they can be an alternative to the current US domination.

Finance as a major factor of asymmetries between the national systems of economy

The concept of National System of Economy as developed by Friedrich List was based on the analysis of the links between the various material sectors of a given economy. The countries that implemented industrial policies, especially after World War II, implicitly or explicitly endeavoured to build some kind of coherence in the material part of their National System of Economy.

Yet material links are only one aspect. The theoretical approaches developed in the past 30 years stressed the importance of non-material factors in the production processes, factors that played a great part in the structuring of the economies in recent years.

The most prominent non-material factor is the financial dimension. Capital can no more be considered as a versatile input, as in the classical model, but as a major component of the National System of Economy. This is due to the complex mechanisms involved between the generation of saving and its availability to the economy for investment.

The crisis of 2007–2008, and its aftermath the sovereign debt crisis of 2011, highlighted the strong interaction between the world of finance and the real economy through mechanisms of contamination to the real sector of what were originally purely financial crisis. This issue is very important and still drags down the growth potential in Europe. Yet, the overall role of the financial industry in shaping the growth path of national economies in the past seventy years goes much beyond the issue of financial crisis.

The capture of international savings to finance the US deficits

From 1945 to the early 1980´s, resources were widely available to finance the growth of developed economies — mostly the US, Europe and Japan. Till 1982 the US was a net exporter of capital, while Europe was a recipient of foreign investments. Japan progressively became a net exporter of capital thanks to trade surplus.

In the 1980´s and 1990´s the US started to grow a huge current account deficit. This deficit increased in the years 2000´s to reach a peak in 2006, then stabilised to a still very high level after 2010.

Average yearly US current account deficit

Billion $	1982 – 1990	1991 – 1997	1998 – 2002	2003 – 2008	2009 – 2013
US current account balance	–110	–170	–289	–703	–429

(Source: IMF/ World Bank)

Meanwhile, Japan, then China and to a lesser extend Russia, grew huge surpluses, while Germany´s current accounts began to be positive in 2002 and became the largest worldwide in 2012.

Average Yearly current account deficit of Japan, China, Russia and Germany

Billion $	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Japan current account balance	170	165	174	211	142	145	218	126	59	34
China current account balance	30	132	231	353	420	243	237	136	215	183
Russia current account balance	46	84	92	72	103	50	67	97	71	34
Germany current account balance	73	133	174	238	217	201	195	227	252	256

(Source: IMF/ World Bank)

Such a macro-economic imbalance has been covered by a **massive transfer of international capital** to the US through the acquisition of long-term securities.

Market value of foreign holdings of US long-term securities

Billions of Dollars	Dec. 1994	Mar. 2000	June 2004	June 2006	June 2008	June 2010	June 2012	June 2014
	1,244	3,338	5,431	7,162	9,463	9,736	12,451	15,539

(Source: US Department of Treasury)

This transfer mainly took two forms: treasury bonds and equities. Their status is very different. Treasury bonds are primarily owned by central banks and institutional investors focusing on secure investments. Japan and China are by far the major investors in this category, which reflects the strategies of the central banks to invest their huge current account surplus. Interestingly, Germany with a different strategy has not significantly invested in US treasury bonds. Russia invested a higher share of its surplus, but its holdings have sharply declined in 2014 and in the beginning of 2015, representing 69 G$ in February 2015. Belgium is an intermediary, the real owner being other countries, among them probably Russia.

Major foreign holders of US securities and long-term Treasury Bonds as of June 2014

$ Billions	Total long-term securities	Out of which treasury bonds
Japan	1,917	1,160
China	1,817	1,261
Belgium	713	353
Brazil	262	227
Middle East Oil Exporters	601	185
Switzerland	634	154
Russia	115	114
Luxemburg	1,198	111
Germany	319	64
Foreign Total	**16,417**	**5,382**

(Source: US Department of the Treasury, "Report on Foreign Portfolio Holdings of US Securities", April 2015)

Public bonds offer security but do not yield any influence on the strategic choices and investment decisions of the US economy at company level, unlike investment in the equity markets.

A tight US control over productive investment

Contrary to public securities, US investors dominate the share markets. In the US they control over 85% of the shares of listed companies.

Foreign investors play a much lesser part. The split by country is more diverse, and more difficult to assess properly because of intermediaries located in countries such as Cayman Islands, Luxemburg and Switzerland. China and Japan are not major equity investors, neither is Germany. Clearly equity ownership is not connected with current account surplus.

Share of US listed companies by nationality of investors 2014

US	**85%**
Total foreign	**15%**
Out of which	
Japan	0.8%
China	0.8%
Germany	0.3%

(Source: US Department of the Treasury, "Report on Foreign Portfolio Holdings of US Securities", April 2015)

Contrary to incoming foreign investments, US investments abroad are mostly focused on direct investments and shares.

2011	**US investments abroad Amount Trillion \$**	**Foreign investments in the US Amount Trillion \$**
Foreign direct investments	4.7	2.9
stocks	4.2	3.1
Interest bearing assets (including public bonds)	1.8	8.6

(Source: Matthew Higgins and Thomas Klitgaard, "Income Flows from US Foreign Assets and Liabilities Federal Reserve Bank of NewYork", Nov 14 2012)

The current domination of the US financial industry

How such a permanent imbalance has been compatible with the persistence of US domination over capital allocation on a worldwide scale, especially for risky assets — mostly shares? The most important element of answer is the sheer size and market power of the US financial market.

In 2003 funds managed by US institutional investors represented 20,000 billion dollars — out of which 8,000 for Mutual Funds and 7,000 for Pension Funds. It was twice the size of European Union Funds. In 2012, US Funds still represented half of the world total: 15,000 billion dollars out of 30,000 for Mutual Funds, 11,600 billion out of 22,600 billion for Pension Funds. Moreover, US Funds invested over 50% of their assets in shares. Mutual Funds and Pension Funds represented 42% of the US public equity market. At the same time European and Asian funds were over 2/3 invested in bonds. To put it another way, the amount of assets in equity owned by US Funds worldwide is roughly twice the amount owned by equity investors based in the rest of the World.

As a result, the US financial system is able to apply an efficient strategy of specialisation that allows both a wider coverage of the needs of US companies and better profitability. By contrast, the European financial system lacks both this depth and this liquidity. This implies less room for specialisation, hence an imperfect coverage of the needs of the economy. The return on assets of US financial companies has been consistently 2 to 4 times that of their European counterparts.

On top of the advantage given to them by size and specialisation, US corporations take advantage of their ability to define the standards and the rules regulating the market: methods, rating system, legal and accounting standards. This whole mechanism generates a process of self-reinforcing competitive advantage.

Impact on the real economy

Overall, the US economy is more reliant on market financing than the European economy.

Sources of finance in the US and in the European Union (Total Outstanding) 2013

Billion $	European Union	US
Bank loans	7,000	1,700
Bond and other securised financing	3,300	12,900
Equity capital	12,800	24,300

(Source: "Bridging the growth gap", Boston Consulting Group Report for AFME, 23 February 2015)

In SMEs, this dependence on bank loans is even more blatant for European companies, while US SMEs have a more balanced liability structure.

Sources of funding for SMEs 2013 (total outstanding)

Billion dollars	European Union	US
Bank loans	1,970	631
Private equity and VC funds	69	208
Angels financing	50	14
Family and friends	214	473

(Source "Bridging the growth gap", Boston Consulting Group Report for AFME, 23 February 2015)

Financing by loans is directed to the more stable companies and low risk projects. Conversely, equity capital favours more risk taking and innovation.

The table above shows that US companies, especially SME, have a very strong competitive advantage compared to their European counterparts. The size of available financing in equity is 3 to 4 times larger in the US than that in Europe. For this US companies also have access to a greater variety of tools. Initial capital is available from Business Angels and seed funds. At the development stage investment funds are extremely specialised by size of projects and by industry and can offer not only money but "smart money". Most important, there is much more capital available from VCs, which permits both a larger number of deals and a higher valuation per deal.

Comparison of VC investment in the US and in Europe

2013	US	Europe
Number of VC investments	3,480	1,395
Amount of invested capital B $	33.1	7.4
Average size per investment M $	9.5	5.3

(Source "Global Venture Capital Insights and Market Trends 2014")

Exit for investors is also facilitated by the "war chest" accumulated by large companies such as Microsoft, Google and Facebook thanks to the size of their stock exchange valuation. Therefore, they can invest huge amounts in small but promising companies.

This increasingly leads European companies to go to the US market to get