



ZHANG YUNLING

Professor of International Economics, Academy Member and Director of International Studies, Chinese Academy of Social Science (CASS)

PARK In-kook, President of the Korea Foundation for Advanced Studies; Co-chairman of the Beijing/Shanghai Forum

I would now like to invite ZHANG Yunling to speak. ZHANG who is a professor and Director of International Studies at the Chinese Academy of Social Sciences, which is one of the best think tanks in China. He is also a member of the National Committee of the Chinese Political Consultants Conference and, as I said earlier, a very close personal adviser to President Xi Jinping, especially in terms of One Belt, One Road. I hope that we will therefore be able to have more advanced feedback from our colleague on this.

ZHANG Yunling, Professor of International Economics, Academy Member and Director of International Studies, Chinese Academy of Social Science (CASS)

Thank you, chairman. That is your own observation. I do not know whether the relationship is close or not.

I was asked to talk about the economic belt and the Modern Silk Road, but before that I will try to talk about the three priorities for China now and in the near future at least. One is to deepen domestic reform, moving from building a market towards the market deciding. That is a fundamental change and it means that you need to change the role of the Government and the risk structure that is SOEs and many assets of the deepening of reform. This is a very hard work for China.

The second thing is the deepening of the opening up, moving from trade expansion to investment and the deeper involvement of this international market. It is also about the liberalisation of the market, moving from a selective opening to a comprehensive opening. This is what the 18th Party Congress, 5th Plenary Session just decided and by 2017 China will fully adopt this negative list and pre-national treatment approach and fully liberalise the capital market. The third priority is, I think, to play a greater role in international affairs, with a greater involvement, including the establishment of new institutions which will complement existing one. I once referred to this as China building new temples without destroying the old ones.

I therefore think that the Belt and Road (B&R) – the silk economic belt and road – is a part of this kind of priority. The question is always asked why China suddenly put forward this kind of initiative or strategy, but this has not been a sudden thing. It is a summary of a lot of initiatives that existed in the past and they have now been put into one large framework and it plays a new and important role in international affairs, with a greater development focus in particular.

If you look at the map of China, after reforming and opening up, China will use the modern routes for developing the economy of the coastal areas and they are becoming more developed. The economic centre of gravity is moving more and more to coastal areas. However, the problem is that this creates an imbalance within China. The western areas cannot find a way of competing with the coastal areas and the Chinese Government has tried hard to create more balance. For instance, there is a grand western development strategy, although this has not worked well because if you go further and to the outside, you see that China is unique in having so many neighbours by the land. To the north, the west, the south-west and the south-east, there are few roads that are connected to the Chinese side. For instance, between China and Russia there is not a single bridge and just one old road that connects to Moscow through Siberia. There is therefore a need for new frameworks and initiatives to improve the connections between the Chinese western side and the outside regions. We therefore need a new initiative for cooperation on that.

That is one thing, therefore, and through that kind of new development resources can be attracted from the eastern side of China to the western side and further to the outside because you have better connected infrastructure and local



economies and so on. This new initiative is therefore for creating a balance and I think that it is crucial. If it is like a big boat where all the weight moves to one side, China will always be worried about this imbalance of the country.

Additionally, I think that concerning the idea of playing a new role, with the US of course leading this liberalisation, has no advantage. On the other hand, in the world economy, we are seeing that developing economies now account for about half of GDP and even more than that in terms of PPP. Nevertheless, most of them lack infrastructure and a basic environment for developing further in the future, especially in terms of being well connected. This goes for China's west, south and south-west. Therefore, through this B&R initiative and a real focus on development, more opportunities will be created for cooperation between China and outside regions, focusing on infrastructure for improving the development environment, and this also brings greater opportunities for China's investments and deepening economic relations. As I said, the US has a great advantage in terms of leading liberalisation, but China has its own advantage, such as being well experienced in building bridges, roads and railways and so on. That is where I think that it can bring the investment opportunities for Chinese businesses to compete and at the same time it is good for helping Chinese economic opening up and the integration with other countries.

We know that, according to the calculations, infrastructure needs very large sums of money and the existing financial organisations do not have the capacity to deal with this. That is why there have been the Chinese initiatives such as the AIIB, the NDB and the Silk Road fund and there will probably be many more of these in the future, which we think are needed. For instance, the SEO bank is still under discussion and there might be a One Belt, One Road bank in the future, or perhaps not just one bank will be established in the future. You therefore need something new to improve the economic development environment.

Development cooperation was therefore in existence for a long time but no way forward could be found. I remember the meeting of the G20 in Seoul when they tried to initiate this cooperation agenda. However, it failed. This B&R initiative might therefore be able to provide a good opportunity to strengthen the development of cooperation.

Just on the AIIB, where there have been a lot of questions, I remember some weeks ago when we had a meeting an American friend stopped me suddenly and said that overnight China had changed the way everything will work for several decades. I asked him what he was referring to exactly and he said that he was talking about rules and principles and that the AIIB would adopt different principles. I said that they certainly had different principles but that they would seriously consider the existing principles. They tried to use the best ones and play different roles. I said that they would consider business risk and evaluate the technical foundations carefully and bring in more and more experts and work cautiously with all their members rather than just China. China simply developed the initiative.

This is of course not innovative but is quite new. We created some new ideas and there was consultation and cooperation among the members where if people did not agree it was decided that we would wait. It was therefore done on a voluntary basis and was jointly designed and constructed and the benefits were shared. We also tried to connect the B&R initiative with local country-based projects, and we have had a lot of discussions on how to integrate it with the Korea's Eurasia initiative, as well as discussions with Indonesia, Kazakhstan and India. They have therefore tried to find a way to integrate it rather than saying that was a super-framework that replaced the others.

In addition, the PPP approach is not just about the Government putting in money. It is about organisations and businesses being directly involved and responsible. It is an experiment, but I am sure that these bankers will be very careful, and they know where the risk is. However, I think that the challenge is one of trust and how you can get the US, Japan and the other major players involved. Our region is therefore theoretically open for all business and there is no limitation there. For instance, if a road was constructed and Japanese or American businesses were then refused, that is not what this is about. They compete on the open market. Nevertheless, trust is essential, and this is China's intention.

I think that another challenge is financing and whether the AIIB and the NDB will provide all the money or the seed money and how people can get money from the international markets and so on. If you allow the business that is directly involved with the responsibility to bring the money, you have to ensure that they get their money back and can make a profit in the future. With a lot of this long-term project, it is therefore always a question and a problem of finding the way to do it.



Another concern that is raised is security and how to make projects secure with the emerging terrorist threat and how to formulate security arrangements and so on. China has some experience here. For instance, between China and the Association of Southeast Asian Nations (ASEAN), with Mekong River aviation, when this was opened up there was a real security issue because the river passes through Myanmar's insecure areas, as well as Laos and so on. A Chinese commercial ship was blown up and people were killed. We have now established a joint security centre and security team as a result of this lesson. It is also about securing transport, given that you have highways and railways that cross countries, and how you manage that. These things can be very technical but you need well-developed security arrangements and systems.

There is then also the 21st century question of the Modern Silk Road and how China passes through the South China Sea is a first step, with the disputes there. China wants to be able to put aside these kinds of disputes and find a way of cooperating. The sea is not like the land with the construction of roads but is based on ports and industrial zones and joint security arrangements that make navigation free and secure and so. There are therefore a lot of challenges, and new things that are introduced will also be challenged, so we need to find a way of being able to do that.

We should therefore probably call this a new experiment with a new idea and it is about how to help the world in the future, especially as I mentioned in terms of the development, focus with new ideas, institutions, and approaches.

Thank you. I will stop there.

PARK In-kook, President of the Korea Foundation for Advanced Studies; Co-chairman of the Beijing/Shanghai Forum

Thank you. I would just like to make a comment. The total amount of money pledged for the AIIB is USD 100 billion, but to achieve the total project you need at least USD 900 billion, so there is still only one-tenth. How can you collect that and how secure is that huge gap? What is worse, as Professor Yunling mentioned, how can you prove that the project will bring profit from a purely economic standpoint?