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Open Asia, Open Finance
开放的亚洲 开放的金融

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Asian Financial Cooperation Conference Report
亚洲金融合作会议报告

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Introduction

After several years of planning, the Asian Financial Cooperation Conference (AFCC) was convened at a critical juncture for both the Asian region and the global economy. The Conference theme, "Open Asia, Open Finance" immediately reveals the directions of the discussions and the commitments of the organizers to a future of continued opening of trade and investment and channels of communications between leaders of business, government, and academia across the region.

Over four years after the acute phase of the global financial crisis, the global economy overall has stabilized, and emerging economies as a group have played an unprecedented role in setting the pace for new growth and driving new growth globally.

At the same time, looking at the globe as a whole, we cannot say that the recovery has been robust or uniform. Serious and even menacing instability has persisted in the European Union (EU), and debt problems in Greece and Spain, for example, have raised questions about the sustainability of the currency and the EU itself. Growth in North America is only now beginning to reach a level that creates employment and value adequate to recover a feeling of prosperity to the populations there and support improved standards of living.

In spite of the regional issues persisting in North America and the Eurozone, the leaders of almost all Asian economies have worked consistently to identify and develop the potential synergies of the economies across Asia. This developmental direction and goal are not entirely new, but the conditions presenting themselves are in constant change. In previous discussions and in this Conference as well, leaders of key major economies have expressed confidence that regional integration can evolve as a win-win process. They also acknowledge that there is unique diversity across the region, in language, ethnicity, culture, political systems, and geophysical conditions, not to mention currency, infrastructure, economic development models, and stages of development.

> As the process of globalization advances to its next stages, and as emerging markets lift more and more people into middle class life styles and greater consumption, the inter-relatedness of all the world's countries can only increase

To manage those relationships, both multilateral economic institutions, like the World Trade Organization (WTO) and World Bank/International Monetary Fund (IMF) will have an important role, but so will bilateral relationships and exchanges, and so will meetings like the AFCC.

Developing relationships between and among emerging economies have deepened quickly in the last decade, and they are fascinating from many viewpoints. There are a variety of economic models among emerging economies, in Asia and around the world, with various political systems and varying degrees of government involvement in large enterprise activities. Numerous asymmetries and contrasts will impact these relationships, and these create unexplored prospects for cooperation, potential for competition, and exposure to risks.

The world has witnessed very material cooperation among many nations in the recent period of development, especially post the global financial crisis. This cooperation is manifest in synergistic trade, critical global flows of investment capital, sharing of technology, even sharing of development strategies. The benefits of opening economies to trade and investment are itself an example of such cooperation. There has also been competition, for resources, especially energy and mineral resources, as well as for markets and Foreign Direct Investment (FDI). And there are risks, especially risks of contagion and risks embedded in higher levels of mutual dependency. In one recent study

under the auspices of the Bank of Canada, it was estimated that major Latin American economies are three times more vulnerable to a significant slowdown in China's growth now than they were in the mid-1990s. That analysis, not to mention the experience of the global financial crisis, underscores the stakes that countries around the world now have in the success of each other sustainable and steady economic growth.

To appreciate the speed with which development among emerging economies is occurring, we can look at the history of the original Brazil, Russia, India and China (BRIC)—group of four nations, and the expanded Brazil, Russia, India, China and South Africa (BRICS)—group of five nations. The first meeting of BRIC leaders took place in New York in 2006, and the first high level diplomatic meeting in the Spring of 2008. The first formal summit was in 2009. And in 2010 the original group was expanded to include South Africa. With South African President Jacob Zuma's participation in the 2011 BRICS summit in Sanya China, the BRICS as a group truly spanned the globe.

It is against this background and in this spirit that the leaders of the two largest populations in the region, and the world, India and China, took on the leading role in organizing the AFCC. Historians of economic development recognize that the range of diversity described above can be a source of tremendous synergy and productive cooperation, but such diversity can also be a challenge to achieving the potential value of synergies and cooperation.

What are the keys to mapping and traveling the path toward positive outcomes in regional cooperation and development?

First and foremost is frequent, open, and frank communication. Another is accurate analysis and reporting of economic facts and conditions followed by scientific decisions. And another is a positive and optimistic outlook about the potential benefits of regional cooperation for the economies and people of the region, coupled with patience and persistence in achieving those benefits.

The Conference brought together government leaders, business leaders, and experts in various aspects of development to articulate shared goals and explore concrete and realistic steps to achieving them. The necessary steps include bilateral and multilateral agreements on trade, investment, currency, aid, and the like. They also touch upon domestic policy decisions, related to public investment, financial services and capital markets, taxation, and household consumption. Finally, they touch upon Asia's stake in global economic development and Asia's role in global organizations and development processes. These are the lines of thinking that dictated the timing and topics of the AFCC. While the range of discussion topics was broad and comprehensive, the level of expertise and interest that participants brought was equal to the task.

We hope you find this report on the Conference a valuable record and reference of the key directions, current status, and future potential of Asia's regional cooperation and development.

The main organizers and notable participants are that conceived of the Conference are the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Boao Forum for Asia (BFA). Both are leading associations within their countries, non-governmental and non-profit, who nonetheless contribute to policy through not least their extensive research, publications, and conference experience. Both also have wide international recognition as important platforms for serious discussion of national and regional development issues.

The FICCI, established in 1927, is the oldest top-tier business association in India, drawing its membership primarily from the corporate sector, both public and private. FICCI is linked to chambers and other business associations around the world and describes its mission as supporting rapid and sustainable economic growth that encompasses health, education, livelihood, and skill development. FICCI plays a significant role in a large number of international conferences, multilateral and bilateral forums, and trade and investment delegations.

The BFA 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, was formally inaugurated in February 2001. The BFA is committed to promoting regional economic integration and bringing Asian countries even closer to their development goals. BFA's flagship event is the BFA Annual Conference, a large multi-lateral conference held each Spring on China's Hainan Island. In recent years, BFA has been proactive in organizing a growing number of cooperative events around the world.

Opening Plenary
(From left to right) Zhou Wen Zhong, Arbind Prasad, Yasuo Fukuda, Zeng Pei Yan, Suresh Prabhu and Sidharth Birla

At the Opening Plenary session, welcome remarks were presented by Zhou Wen Zhong, Secretary General of BFA; Yasuo Fukuda, Chairman of BFA, and Sidharth Birla, Vice President, FICCI & Chairman Xpro. The keynote speech was presented by Zeng Pei Yan, Vice Chairman of BFA; former Vice Premier, China. Inaugural addresses were presented by Suresh Prabhu, former Union Minister for Power, Government of India & Chairperson of the Council on Energy, Environment and Water, India, and Arbind Prasad, Director General of FICCI.

From the Asian perspective

The debate about China and Asia being coupled or decoupled with the rest of the world was put aside in the wake of the global financial crisis of 2008, as the crisis itself proved that Asian nations at all stages of development are directly and strongly impacted by developments in major economies around the world.

At the same time, Asian nations were not only able to keep their development on track, but Asia emerged from the early stages of the crisis as the region that would lead if not drive the global recovery. Where consumption was stubbornly down in mature economies, China, India, and several other Asian economies were quickly able to post impressive Gross Domestic Product (GDP) gains and increases in domestic consumption.

Recognition of Asia's contribution to global recovery had several effects. The voice of China, India, and other Asian nations became more important in global organizations and affairs. Global media began devoting more space to coverage of developments in Asia, and the impact of growing Asia demand was routinely factored into analyses of commodity pricing and supply-demand balances, especially energy, minerals and food.

These developments of just the last few years also brought into the spotlight a series of discussions about optimal regulatory activities at both the national and global levels. Asian economies for the most part had been intensely regulated and generally closed, not only to outside investors but often to private investors at home. Criticisms had consistently been made about weak mechanisms for allocation of capital and lack of transparency and consistency in both financial markets and regulation.

These developments in the wake of the crisis certainly did not mean that Asia and Asian nations would abruptly and in a wholesale manner abandon their regulatory foundations, nor did it mean they would adopt, in a wholesale manner, practices from the West. In fact, the crisis itself tended to call into question the trend toward deregulations that had prevailed, especially in financial services and that received some of the blame for the global crisis in the first place.

In general discussions reflecting the Asian perspective began with a consensus that the crisis had rocked the commitment in mature economies to ever freer markets for capital and financial services. Indeed, panelists noted that there is now a strong tendency among developed markets toward over regulation, in a reversal of three decades of relative, sustained liberalization. Over regulation by mature economies now constitutes a threat to the efficient operations of global markets, to the degree of increasingly constituting a threat to emerging economies, according to the panel discussion. The current trend toward over regulation was likened to excessive taxation, which is widely recognized as a disincentive to investment and business growth. In short, Asia could approach key regulatory issues by developing both national and regional policies drawing on the valuable lessons learned from the problems experienced in more mature economies.

Another point central to the Asian perspective is focused on allocation of capital. Governments in emerging markets play a role different from those in developed markets, in control of investment resources and level of intervention in capital flows. Most of the emerging market economies are focused on aggregating resources for huge infrastructure needs. Their financial service sectors are still engaged in basic financial services to businesses, such as deposits and loans. Liberalization of capital flows, permitting of financial engineering and innovation of more complex products will in time play a significant role without leading to a financial disaster, but they cannot be pushed too far. The developed economies were devastated by excessive leverage and linkage effects among products that were not well understood. Panelists compared leverage in the financial system to cholesterol in the human body. It is essential for growth and can be good if moderated and bad if not checked.

Although the global media and many business gurus recognize the shift of wealth from West to East, there is likewise a recognition that emerging economies overall have not had a strong voice historically in the conduct of global affairs. This is most clearly reflected in the historic leadership of Key International Economic Organizations (KIEOs), like the World Bank, IMF, and WTO. In the most recent leadership changes in several of these, representatives of the BRICS stood up and spoke out about new leadership choices, and for the first time the idea was introduced that top positions could and should be held by capable leaders from emerging economies.

While that has not yet happened, important changes are underway that are giving a stronger voice to emerging economies, and especially Asia as a region, in global affairs. The economic summits that have become crucial communication events have been expanded to include the Group of Twenty (G20), an expansion that brought 10 emerging economies into the compass of that group. Since the global financial crisis, the role of Asia in supporting recovery and a new era of economic growth has been an undeniable reality.

With consistently high GDP rates across the East, South, and Southeast Asian region and rapidly growing household consumption in the countries with the largest populations, the interdependence of developed and emerging economies has become the major theme of globalization

Slow growth in the developed world is a worry for Asian leaders. Sovereign debt crises are a topic of discussion far from their actual locus. Worry about the potential slowdown in consumption growth of China and India and their neighbors are evident in commodity markets and corporate financial projections everywhere in the world.

Conferences like the AFCC are both highly visible manifestations of and crucial instruments for a rising voice of Asian nations in global affairs. They facilitate progress toward a shared understanding of key issues impacting Asia as globalization proceeds, and they facilitate agreements on the paths to win-win development of the region. Regional conferences and forums are becoming more frequent, larger in terms of participants, and broader in terms of geographic reach.

Highly visible events like these provide a platform for the world as a whole to understand the range of proactive steps Asian leaders are taking to raise their voices in matters of global concern and promote a new level of meaning for the word "mutual" in the concept of mutual understanding. They are also an opportunity for Asian leaders to publicize and, in a sense "test", the range of proactive steps underway to achieve the benefits of closer regional integration. Although driven by Asian leaders and implemented within the Asian region, these events always include business and government leaders as well as academic experts not only from the region but from around the world.

Proactive steps to drive integration have been energetically pursued by the leaders of large Asian economies at last since the turn of the millennium. By the midpoint of the last decade, from roughly 2004 on, synergies among and between Asian nations were being recognized and new free trade agreements were being finalized. The global financial crisis fueled both an expansion and acceleration of these efforts, and the benefits of regional integration became a major theme in the public and non-public interactions of regional leaders.

The next section of this report turns to a review of the Conference discussions of the framework and specific steps toward a more integrated Asia, steps that promise both a stronger voice for Asian leaders in global affairs and a sustainable future of growth for Asian populations.

Frameworks for cooperation

As mentioned above, the discussion of Asian integration is taking place against a background of complex regional developments in other parts of the world, most notably in the EU. Events there have underscored the risks as well as the benefits of the EU model, covering such topics as the pros and cons of a common currency, the challenges of managing an expanding multi-border free trade area, the strengths and weaknesses of shared responsibility for the fiscal behaviors of individual national leaders, and the scope and limitations of new institutions, like the European Central Bank, in crafting and implementing regional systems.

Lessons from other Free Trade Areas (FTAs) and common currency zones provided valuable input into the Conference discussion. At the heart of the integration benefits are the tremendous synergies that exist among countries with distributed and diverse strengths in manufacturing, resource development, and trading and related services. The benefits of integrating markets with large populations climbing quickly up the wealth ladder and the benefits of optimized and highly competitive regional supply chains are at the heart of the discussion. But so are the challenges of integrating such markets and supply chains, and those challenges resolve down to the willingness and ability of individual nations to balance national interests with the benefits of regional integration.

A panel entitled "FTA & Asian Economic Integration" was moderated by R. S. Ratna, Economic Affairs Officer-Trade Policy Section, United Nations Economic & Social Commission of Asia and Pacific (UNESCAP). Panelists included Lee Yoon-Woo, Executive Advisor, Samsung Electronics; Shin Bong-kil, Secretary-General, Trilateral Cooperation Secretariat; Steve Howard, Secretary General, the Global Foundation, and Steven R. Okun, Director of Asia-Pacific Public Affairs, KKR.

FTA & Asian Economic Integration
(From left to right) R. S. Ratna, Steve Howard, Lee Yoon-Woo, Steven R. Okun and Shin Bong-kil

The three key issues with which the panel was charged include:

1. Discussion of the existing frameworks of regional, sub-regional and bilateral cooperation;
2. Reflections on the path-making China-Japan-Republic of Korea (ROK) Free Trade Talks;
3. Their implications for Asian Economic Integration and an invitation for new thinking on Asian Economic Integration.

R. S. Ratna started the panel discussion by expressing that in the current context of recent crisis, Asia is a vibrant economy, despite being a late starter as compared to Europe and the US. This is evident from the fact that unlike other countries across the globe, exports of Asian countries were less affected during the time of the financial crisis. Lee Yoon-Woo described Asia as the new heart of the global economy and hence expressed the need for multinational corporations (MNCs) to expand their operations in Asia, keeping an eye on the future. However, he observed, for a successful implementation, it is necessary on the part of Asian countries to put in place the right systems in the areas of technology and research & development (R&D). Keeping this necessity in consideration, he further suggested creation of a study group to ensure implementation of a “Real One—Asia”.

Shin Bong-kil began with an introduction of the history and role of the Trilateral Cooperation Secretariats, a North-East Asian inter-governmental organization comprising China, Japan and ROK, which was established a couple of years ago. Participating countries have agreed to establish a permanent organization to systemize and institutionalize cooperation between the three countries. He then said that the momentum for economic cooperation is growing all over Asia and it will further increase the sense of community in addition to the economic benefits of such cooperation. Moving on he spoke about the existing frameworks in Asia including Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP). Shin also mentioned that despite diversity in market size, openness, expectations and strategies of each country in Asia, larger regional markets are required to boost international trade and investment, especially considering the current situation in the US and Europe. Benefits from the Asian integration are not limited to only economic aspects, but will also promote institutional development and the global leverage that it entails.

Economic integration should be viewed as a long-term solution to build mutual trust

Steve Howard highlighted food security as the next biggest issue, especially for Asia where countries have high growth rates in population and an increasingly affluent population. Increasingly wealthy middle class populations demand better quality. Considering this issue, he said that there is a need for reorganization in regional cooperation in order to determine how to grow, distribute and consume food in the coming years. He also pointed out that the true challenge for regional cooperation is to create investment driven relations within the FTAs. He concluded by saying that it is not enough to just have bilateral/regional agreements and that all agreements should be directed towards a global view with a global outcome and at the same time for the benefit of the community.

Steven R. Okun offered an analysis of the traditional FTAs, noting they primarily address issues arising only "at the border" and do not reach into issues that truly facilitate the most efficient integration of interests and processes. There is no single agreement that addresses "across the border" issues like efficient customs authorities in both countries, non-discrimination of products/countries or "behind the border" issues like non-tariff barriers in various countries. Hence, economic integration still has some work to do to address these issues. Okun added to the focus on goods a discussion of the value of a focus on services, noting the huge market available in Asia with respect to services including tourism related services. To take advantage of these opportunities, the business community is now looking to push multilateral agreements like TPP.

The details brought forward at the Conference surrounding the work yet to be done, focused attention on the issue of national interests and regulations, which inevitably entail a strong element of competition, and the benefits of regional cooperation. Regulations are national in nature, while meaningful and large scale activities in both the financial economies and real economies are increasingly transnational.

As a result, the nature of national regulation bears directly on the ability of Asia and global economies to work synergistically and benefit from the most efficient flows and uses of capital. Excessive regulation that is not attuned to the benefits of integration not only unfairly impedes business initiatives that could be very productive in transnational use but negatively impacts the national interests of the primary economy that is developing and implementing the regulations.

Radhakrishnan Nair (Moderator)
Member (Finance & Investment)
IRDA

Jin Li Qun
Chairman, Supervisory Board
China Investment Corporation

V.K. Sharma
Executive Director
Reserve Bank of India

Zhang Hong Li
Vice President
ICBC

Saugata Bhattacharya
Sr. Vice President, Business & Economic Research
Axis Bank

Anup Bagchi
MD & CEO
ICICI Securities Ltd

Radhakrishnan Nair, Member (Finance & Investment), IRDA, moderated a panel entitled "Balancing Openness, Innovation & Regulation – the Asian Way". Participants in this panel included Jin Li Qun, Chairman, Supervisory Board, China Investment Corporation (CIC); V.K. Sharma, Executive Director, Reserve Bank of India; Zhang Hong Li, Vice President, ICBC; Saugata Bhattacharya, Sr. Vice President, Business & Economic Research, Axis Bank, and Anup Bagchi, MD & CEO, ICICI Securities Ltd.

The three key questions with which the panel was charged were:

1. What is the impact of over regulation and managing leverage?
2. What is the importance of monitoring financial markets credibly with an open and adequate communication and information loop?
3. What would constitute appropriate "tailored" regulations for Asia?

Radhakrishnan Nair observed that the panel was well-represented from diverse sectors of the industry including banking, capital markets and investment banking. He further noted they brought leadership viewpoints from the two largest emerging markets of the world China and India. Nair introduced Jin Li Qun, who is the Chairman, Supervisory Board of CIC, which has emerged as one of the largest investors in the world. CIC is known to have diverse global assets totaling over US$480 billion.

Jin began his discussion with an analysis of the global financial crisis, emphasizing how the subprime mortgage meltdown triggered the financial crisis and in turn led to subsequent instabilities, in particular the Eurozone debt crisis. These two financial crises rocked the foundation of several economic theories in free markets, and triggered robust and sustained discussion of the balance point between free markets and regulation. According to Jin's analysis, in the Western world there is a discrepancy in the authoritative belief in capital markets and free flow of capital and actual practices. On the one hand, people cling to the Western economic theories of free market, while on the other hand governments and regulators in the Western world have been tightening the controls on capital flows, in recognition that under regulation was a contributing factor to the crisis in the first place.

The reason behind the increased government intervention is both explicit and subtle, but it has its own risks. Jin views the present trend, which he regards as a trend toward over regulation and inappropriate intervention, as a major risk to the recovery of the global economy and as a threat to the efficient operations of the financial systems globally. Unabated, this trend would bear serious implications for emerging market economies like China and India. In the US and Europe over regulation is becoming increasingly common, according to Jin. Excessive regulation in any sector is detrimental to an economy just as excessive taxation is destructive. A heavy tax regime is a disincentive to a business and may actually lead to decline in tax revenues due to stagnation or even contraction of the business.

Jin continued his detailed analysis by examining the impact of excessive regulation on the financial sector. The financial sector is particularly sensitive to excessive regulation as it leads to higher costs, which will drive a company and subsequently its capitals in this globalized world to move towards a "freer" jurisdiction. Financial investors can nowadays make decisions to move their assets and resources at a click of a button to a less restrictive jurisdiction. This is one manifestation of over regulation. If a jurisdiction is over regulated investors and business tend to desert the market. The US has now become the poster child for the consequences of over regulation. There are studies that document the decline of the US as a premier financial market. Between 1996 and 2001, the New York Stock Exchange (NYSE) averaged 50 new non US companies while in 2005 it gained 19. Of the largest 25 global offerings only one took place in the US. The Government Accounting Office found that the number of public companies going private increased from 143 in 2001 to 245 in 2004. The figures are revealing of the decline of the competitiveness of the US as a financial market. The Sarbanes Oxley Act of 2002 places costly financial burdens on companies and is estimated to have caused a loss of the market value of US companies to the tune of US$1.4 trillion.

In addition the need to have a majority of independent directors on the companies' boards reduces the company's willingness to take risks, and this has already adversely affected the US economy. This is the scenario in one of the world's most advanced financial markets. Ironically the Sarbanes Oxley Act of 2002 played absolutely no role in preventing the financial crisis in the US of 2007-2008. While financial corporations do not want to take unnecessary risks in their operations, excessive risk taking and high leverage achieved by some very large financial companies were not reduced by the Sarbanes Oxley Act. The Securities and Exchange Commission (SEC) has placed a number of costly regulations on financial companies that have not been justified by cost benefit studies. The SEC has engaged in a number of enforcement actions, which Jin regarded as abuses, the worst of which is charging companies, many in China, with possible securities violation without adequate proof.

The second of Jin's major points was that the financial system was less efficient in resources allocation and recycling finances for growth. Most of the emerging market economies are still engaged in basic banking services to businesses, such as deposits and loans. A lot of financial engineering could have played a significant role without leading to a financial disaster if the so called "innovation" had not been pushed too far. The developed economies are devastated by excessive leverage. Leverage is to the financial system what cholesterol is to the biological system of mammals. It is essential for growth and can be good if moderated, but it is very bad if not checked.

The financial systems in many emerging economies are underdeveloped. An underdeveloped financial sector has its vulnerabilities and must become more robust and resilient. A developed financial system in an emerging market does not automatically mean that it will not have the same challenges as faced by Western economies. It is all about how to strike a balance between financial innovation and prudential supervision.

China also has a lot to improve when it comes to efficiency and reach of banks. The Small and Medium Enterprises (SMEs) sectors in China generally do not have access to the formal banks. Banks have their concerns when it comes to lending to SMEs both in terms of costs and risks. Reflecting on tailored regulations for Asia, a viable option recommended by Jin is to lower the entry barriers for smaller banks that are better placed to lend to SMEs. But with such a step, one would have to proceed in a prudent way. The risks with smaller banks are that they are prone to bankruptcy. However they are systemically less important and their failure would not dent the financial markets.

Emerging markets should learn to be more sophisticated and mature in running their financial institutions

We should learn our lessons on how to run a company in a corporate way from the West but avoid excessive leverage.

The central point V.K. Sharma wanted to convey was on the side of prudence. Financial innovation needs to be responsible. Sharma referred to the financial crisis and attributed its occurrence to the fact that financial innovation came to exist for the sake of innovation and benefits of the financial sector players, rather than as a response to the needs of the real sector. This created a huge imbalance between the financial sector and the real sector. The numbers on the global stage on the eve of the financial crisis tell the story. Global financial assets during the crisis aggregated to about US$204 trillion, while GDP was a relatively small US$65 trillion. On the other hand, as a result of innovation in leveraged products, derivatives reached a value of US$370 trillion, over 10 times global GDP.

Sharma concurred with Jin on his opinion around regulation and supervision of leverage. On the other hand, Sharma maintained that finance is about leverage. Unlike a manufacturing set up where the leverage is low, in financial companies the leverage needs to be quite high. Banks and other financial institutions have to deliver market returns on equity that are competitive for investors or they cannot get funding.

Having made that argument for leverage, Sharma continued on to acknowledge that financial institutions and markets need to be supervised effectively and credibly. With each crisis the tendency is to go radically from one extreme to the other, and further intensify the regulatory vigilance. We should ideally be cautious in finding the right balance point from the get go.

Finally, Sharma argued that there is no need to think of new international best practices to tackle crisis. Sharma recalled a speech in 2008 where he said that it was not that the international best practices failed during the crisis, it was the people on the ground to implement them who failed. The structure is not as important as the people responsible for maintaining a sound and orderly market. The idea is not to go to extremes from one point of non supervision to over regulation and to have responsible financial innovation. Sharma ended with a concluding comment noting that balance and harmonization are essential between the regulatory and supervisory regimes between and among the world's major exchanges.

Zhang Hong Li, Vice President of ICBC, the world's largest bank by market capitalization, began by introducing us to the current nature of banking services. He pointed out that there is a gap between the banking needs in Asia versus what banks in Asia have been able to provide. He said that the demand for financial services is becoming more complex, multi-structured, while what banks offer is more limited and mired in the past. Zhang cited the example of Chinese banks, which he opined do not integrate with the needs of the economy in terms of structure, products, strategy. This is partly due to regulations, according to Zhang.

In terms of banking regulations Zhang mentioned that Asia is at a different stage of economic growth compared to the US. As a consequence, the type of regulation needed is by definition different from what is applicable in the US. He recommended that regulations for the Asian market need to be tailored to the needs of each country so that each economy can continue to grow and fit into the global economy. Zhang also brought to the attention of

the panel a pertinent reality that regulatory and financial dynamics are also subject to political will. The only way to ensure that regulations are meant to promote financial stability is to actively communicate with the political fraternity.

Saugata Bhattacharya emphasized the need for financial innovation and said that it was fundamental to support the role of finance. It is important not to tarnish the concept of financial innovation altogether. There have been several highly valuable innovations in financial markets like those in the area of payments, as well as Private Equity (PE) fund development and risk-based structured products.

The key to manage financial innovation without it becoming a toxic risk is to identify at what point a financial company moves from hedging risks to hiding risks

Managing innovation is not about the risk products but how these products are developed and regulated.

Anup Bagchi, MD & CEO, ICICI Securities Ltd, commenced his speech stating that innovation is good for capital markets. Bagchi commented that rather than debate if innovation is good or bad; the important question is about balance. Innovation has to be in lockstep and balance. When one new variable is innovated, others need to be created simultaneously in response. The real issue is that balanced innovation and regulation do not happen simultaneously, given the complex variables of the financial market. So sometimes a product is created but regulations to monitor it are not in place.

Bagchi then pointed to the need for regulators to create a feedback loop and monitor signals that would alert regulators and investors when things are going wrong.

The need for an open discussion amidst regulators combined with market intelligence and conscious sharing of information is more pertinent than ever before. As a regulator one cannot always forecast what the collateral damage is going to be should a product go bad. But a feedback loop would at least help the regulator to know what is going wrong and what can be done to address it. Bagchi also shared his insight on what kind of signals would indicate problems in a company's health. He recommended examination of a company's balance sheet with an eye toward evaluating the sources of profit. The sources of profits are also the sources of risks. The next step then would be to ascertain the sources of liability. Ultimate liabilities reside with the people whom regulators are tasked to protect. They do not have any other channel aside from credible regulators; they do not otherwise have a collective bargaining system.

Balancing Openness, Innovation & Regulation – the Asian Way
(From left to right) Radhakrishnan Nair, Anup Bagchi, Saugata Bhattacharya, Jin Li Qun, V.K. Sharma and Zhang Hong Li

Financing growth

Ultimately the most central issue confronting emerging economies is not their desire to grow, build infrastructure, foster stability and sustainability, and consistently improve the quality of the life of their citizens. This is almost a universal aspiration. The most central issue is how to finance growth, in both the private and public sector, sourcing capital from both public sources and private markets and investing in both areas of public investment such as infrastructure, and market areas such as industrial capacity. The goals are closely related to the overall goals of regional integration and cooperation, and a series of panels offered detailed discussions of core topics. These included the overall challenge of financing growth, the role of capital markets, financing SMEs as the engines of market growth, and the potential to accelerate growth through developments in capital and currency mechanisms.

Sameer Bhatia (Moderator)
President
CRISIL Infrastructure Advisory

Sameer Bhatia, President, CRISIL Infrastructure Advisory moderated a panel entitled "Financing infrastructure in Asia: The Role of Capital Markets". Panelists included Stephan Groff, Vice President, ADB; David Newhouse, Analyst, EDF Group; G V Sanjay Reddy, Vice Chairman, GVK Power and Infrastructure Limited; Atsushi Saito, President, Tokyo Stock Exchange; Tong Ji Sheng, Vice President, SCG, and Nikhil Treebhoohun, CEO, Global Finance Mauritius.

The panel was charged with five key discussion points.

1. What are the most important and appropriate landscapes, institutions, structures, and other realities?
2. What are we seeing in terms of national, regional, and global trends in interactions among capital markets?
3. What are the major efficiency challenges in establishing a sound financing infrastructure?
4. What are the greatest challenges to SMEs striving for growth?
5. What are the roles of currency and the prospects for change in the global currency landscape?

Stephen Groff initiated the panel discussion by highlighting that US$8 trillion worth of opportunity lies in the infrastructure sector over the next decade. India itself has a large gap in its current infrastructure levels and needs, and India alone will require large investments in its infrastructure sector. To meet some of the funding requirements, Groff proposed that India should find ways to channelize its large domestic savings. But the expected demand for capital also represents significant opportunities for capital markets.

There are two major requirements for infrastructure investments to pick up. Projects need to be made more "bankable" through both improved risk management and prioritization of infrastructure projects by the relevant governments. Secondly, governance of such projects and their utilizations needs to be strengthened by improving civil service capacity and making business processes more transparent. In this way, a more level playing field can be established for all private sector companies. Groff also highlighted that capital markets are undergoing a change and lending will shrink over the next few years, as capital markets become more focused on market-based companies at the expense of a focus on infrastructure. Such a shift of focus on the part of private investors would increase the cost of borrowing dramatically as the era of cheap capital comes to an end. There would be a shift of investor priorities and Asian investors may invest outside Asia for their expansion.

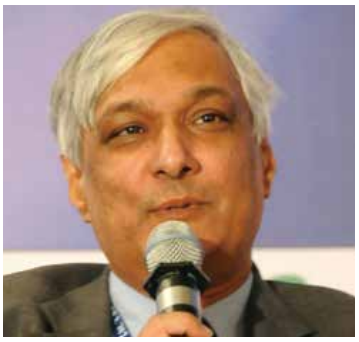
Stephen Groff
Vice President
ADB

David Newhouse
Analyst
EDF Group

G V Sanjay Reddy
Vice Chairman
GVK Power and Infrastructure Limited

Atsushi Saito
President and CEO
Tokyo Stock Exchange Group, Inc

Tong Ji Sheng
Vice President
SCG



Nikhil Treebhoohun
CEO
Global Finance Mauritius

David Newhouse, Analyst, EDF Group highlighted that as an investor in the infrastructure sector, his company looks at allocating risk and capital in the most optimal way by selecting projects that diversify its risk. He said at the corporate level they are active in the bond market to raise finances and select projects only after a detailed analysis to mitigate risks.

G V Sanjay Reddy described the Indian opportunity as one of the largest infrastructure opportunities in the world. India has come a long way from 1990s where it had just opened its sectors. Initially, regulatory conditions were quite stringent with respect to international finances. That has changed. India is expected to require investment of at least US$1 trillion over the next five years, of which 50 percent is expected to be needed by the power sector alone. Assuming that 70 percent of this funding will be debt finance, he expressed his view that banks would have an appetite to fund only part of these large infrastructure projects, leaving a substantial challenge to source the remaining 30 percent through equity investment.

Reddy expressed his opinion that equity investment is highly driven by the sentiments of the promoter and the investors. As a result, raising equity finance requires long-term stability in the policy and regulatory environment, which provides critical positive signals. He advised that governments need to identify, conceptualize and develop a project up to a certain stage before the project is capable of attracting equity investments. The project needs to be ripe enough to be bankable. Building a credible model demonstrating long-term stable cash flows is critical for financing of such large infrastructure projects.

Successful examples of large infrastructure project would be the 4,000 Megawatt (MW) ultra-mega power projects that were competitively tendered by India's Central Government. Reddy said that Government had arranged for land, environmental and forest clearance, water, and coal before initiating the bidding of these projects. Those key preliminary steps reduced the risks private developer had to undertake. This resulted in cheaper capital hurdles being offered by private developers. Similar arrangements would have to be done in other sectors so that private developers see reduced risks and appropriate return rates as they seek long-term visibility on the projects. These are the keys to engaging substantially larger private sector participation in infrastructure projects.

Financing infrastructure in Asia: The Role of Capital Markets
(From left to right) Sameer Bhatia, Stephen Groff, David Newhouse, G V Sanjay Reddy, Atsushi Saito, Tong Ji Sheng and Nikhil Treebhoohun

Atsushi Saito representing Japan's capital market players said that Japan is very eager to participate in infrastructure projects in India. Japan is already investing in the Delhi-Mumbai Industrial Corridor project promoted by the Central Government. However, echoing Reddy's point, he emphasized that the government of every country has to play a critical role in mitigating risks for private sector investors. Infrastructure projects that are pursued without support of a clear and stable policy are very risky for the private sector. To give one example, a sudden reduction in subsidies, unexpected increases in costs, and mandated adjustments in pricing and returns are all very risky for private investors, and are things they have frequently experienced in emerging market infrastructure investment. Because such moves significantly increase the burden on private players to achieve their required returns, they are major disincentives to invest in infrastructure where clear and stable policy does not exist.

Japan has a lot of funds that have investments in bonds yielding a very efficient and attractive low marginal one percent. Japanese investors would be ready to set up a conduit to channel these funds from Japan to Asian economies for infrastructure projects. However, to do so would require a series of facilitating steps, including harmonization of accounting standards, and a reliable system to assess if projects meet minimum credit rating standards. These are all processes that limit the level of risk exposure for private funds. Saito also highlighted that district development funds should be raised to finance its district level infrastructure projects like roads, ports, and de-salivation projects. However, to be successful in attracting funds at the district level, risk mitigating factors are as important if not more so than at the central level.

Focusing on energy, Saito added that after the nuclear incident in Fukushima, Japan had refocused its attention on renewable energy sources. Developing newer sources of energy is now a national priority.

Tong Ji Sheng started his discussion by stating that there is a serious lack of funds available for infrastructure projects. He said that most of the developing countries wish to develop infrastructure but lack access to the quality capital needed to support it. Openness of government and policies are critical elements to attract finance. Most of the other emerging economies in the world, in Latin America and Africa, have similar problems with finding sufficient capital. But Asia has an advantage with its 3.5 billion people and US$6.2 trillion of total Foreign exchange market (FOREX) reserves. The presence of these reserves, however, does not necessarily mean there are ready ways to channel them into developing infrastructure projects.

Tong said that his company is ready to explore two new sources of finance in India i.e., direct project finance and construction bonds (debt securities). Banks and private players need to work together and create innovative financing solutions to fund such infrastructure projects. He also suggested that political will and government policies have a great impact on large infrastructure projects, and this is a major concern for these projects in Asian countries. These issues need to be resolved jointly by leaders in government, businesses, finance, and other related sectors. Chinese companies experience limited market access in India. There are barriers that limit capital

inflows and technology transfer, so market access remains a large concern. For example, only a limited number of Chinese personnel are allowed to work legally in India for executing infrastructure projects, even if the need for their skills is clearly demonstrated.

Nikhil Treebhoohun said that sufficient and reliable return is one of the key investment decision criteria for PE investments in India. PE investors have been able to benefit from security, efficiency and stability of Mauritian regulatory and tax regimes. Therefore, many have chosen Mauritius as an investment transit point for transfer of funds to India. Ever since India opened up foreign investments in various sectors, beginning in 1990, investors have opted for Mauritius. Similarly there is a huge demand for PE investments into Africa's infrastructure space. It has certain inherent risks (such as exchange control risks). However, Mauritius tax treaties with African countries have helped in offering certain protections to investors, including such key provisions as covenants for international arbitration of disputes.

The moderator, Sameer Bhatia, concluded the session by summarizing that infrastructure investment, in India and elsewhere in Asia, constitutes one of the biggest investment targets in the world, and the panel had well-addressed both the opportunities and the bottlenecks and challenges faced.

The discussion on infrastructure dealt in detail with international private sector investors in large infrastructure projects, but what about domestic private business initiatives and investment?

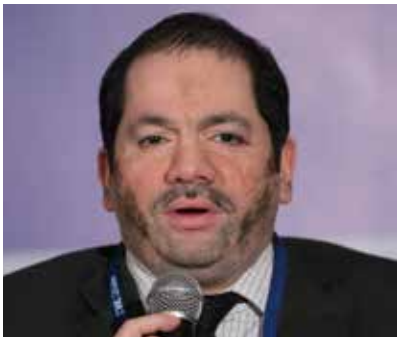
There is widespread agreement that domestic SMEs are critical in emerging economies, to foster innovation, employment growth, and trends toward more balanced distribution of wealth. Yet, a common characteristic of recently reformed, large economies is the major role of government, public funds, and government-owned enterprises in jump-starting development and investment in key sectors.

Even where development of private, entrepreneurial companies has received strong encouragement, and even regulatory support and liberalization, their growth has almost always been hindered by limited access to growth capital. The reasons for this are complicated, rooted in a combination of the state of development of private capital markets, the investable wealth that resides outside the public sector, the eco-system for channeling capital, identifying and mitigating risk, and the overall support systems, policies, and processes to govern a large private sector.

Sushil Muhnot, Chairman & Managing Director, Small Industries Development Bank of India, moderated a panel entitled "Financing SMEs in Asia" that focused attention on domestic private sector issues. Panelists included Pranav Chawda, Managing Director and Head-SME, Citibank India; K Hari, Vice President, National Stock Exchange of India Limited; Avinash Gupta, Senior Director, Deloitte Touche Tohmatsu India Private Limited, and Zheng Xin Li, Permanent Vice Chairman, China Center for International Economic Exchanges.

Sushil Muhnot (Moderator)
Chairman & Managing Director
Small Industries Development Bank of India

Pranav Chawda
Managing Director and Head-SME
Citibank India



K Hari
Vice President
National Stock Exchange of India Limited

Avinash Gupta
Senior Director
Deloitte Touche Tohmatsu India Private Limited

Zheng Xin Li
Permanent Vice Chairman
China Center for International Economic Exchanges

Four key questions were put to the panel.

1. What are the landscapes, institutions, structures, and other realities important to SME funding?
2. What are the relevant national, regional, and global trends in interactions among capital markets?
3. How can we describe the efficiency challenge for things like financing company infrastructure?
4. What are the most critical challenges for distribution and growth facing SMEs?

Sushil Muhnot opened the discussion by noting SMEs are defined differently in various countries based on criteria like total turnover, total investment in plant and machinery, employment, and the like. But all of them face common challenges worldwide, which are primarily access to funds and the cost of funds. He noted that SME company equity demands are unmet, and hence they rely on capital to finance operations from family, friends, relatives, or, in the worst case, very high interest lenders. Muhnot then described financing of SMEs in India as well as current policy targets set by the Reserve Bank of India, such as increasing SME lending by 20 percent per annum, increasing overall access, and promoting an increase in the total number of licensed and supported SMEs.

K Hari, sharing the equity market perspective, said that in order to promote financing for SMEs, the National Stock Exchange in India has introduced a new platform called "EMERGE" which allows SME companies to trade on the stock exchange. Following global trends in small capital markets, this new platform gives special guidance to companies and investors for the SME companies choosing to list on the platform.

Pranav Chawda said that SME financing is a difficult task for any bank, and banks across the world face common risks and challenges in financing SME sector undertakings. At times the SME undertakings lack professional financial management experience and capability, like basic treasury management and financial modeling and planning. Unlike a large company's management and governance, in SMEs, decision making lies with the sole owner and promoter. The financial scale and structure of the SME is special in that proprietors make decisions based on criteria that might differ from the funding priorities of a large corporation. To facilitate success, SMEs often partake in additional guidance from banks that have lent to them.

Avinash Gupta
Senior Director
Deloitte Touche Tohmatsu India Private Limited

Avinash Gupta, commented that the private equity market is relatively small in India, just around US$15 billion. This is worrying because investors in the private equity market are looking primarily to service the funding needs of only the bigger companies. The real need for capital by SMEs is obvious, but investors are not easily convinced that there will be a return and that there will be liquidity. Gupta further noted the importance of clear and consistent reporting for the benefit of investors and advocated a need for diligence and a review of processes to further the development of a financing for the SME sector.

Zheng Xin Li focused comments on the financing of SMEs in China. He pointed out that even though China already has 1,000 microfinance organizations, the number is still relatively limited, and it is difficult for SMEs to access sufficient capital. He described the special regional characteristics of China, with interest rates being very high for SME borrowers in some areas where the SME structure is popular, like Guangzhou and the Pearl River Delta near Hong Kong. Interest rates in these regions can be 20 percent or higher. Zheng further mentioned that China has long recognized this problem and encouraged banks to set up special programs to channel capital to SMEs. One such example is a three-point reform program that includes lowering the threshold, allowing more financial institutions to grant loans in their own regions, and the liberalization of interest rates. These initiatives should be a successful contribution to more available capital for SME growth.

The panel discussion wrapped up with consensus observations that SMEs in Asia need more finances in order to transform the demographic dividend into a real economy dividend.

Harnessing the power of SMEs is essential in terms of sustainable economic growth and development

Against the background of discussion globally about the fate of the Euro, the most innovative common currency in the world, discussions about the current state of trade, investment, and reserve currencies have become more and more developed since the global financial crisis. Although many ideas have been generated, like the creation of special drawing rights by the IMF, little real progress has been made through the agency of key international economic institutions. At the same time, China has proactively pursued an international role for the RMB, adjusting regulations and proposing arrangements in numerous bilateral discussions that promise to alter the current global currency landscape.

There are many facets to the currency discussion, and as it proceeds, markets are having their say in global currency moves. Global currency transactions on a daily basis are already massive, exceeding US$4 trillion a day. There is no doubt that the future of currencies is a key determinate of economic trends around the world and of Asia's growth as a region. The global currency landscape is critical to trade settlement, capital flows and transactions, and wealth and asset management.

Currency Swaps amidst Fluctuating Exchange Rates
(From left to right) H.R. Khan, Steve Howard, Andrew Khoo, Ajit Ranade and Wang Dan

H.R. Khan, Deputy Governor of the Reserve Bank of India, moderated a panel entitled "Currency Swaps amidst Fluctuating Exchange Rates". Panelists included Steve Howard, Secretary General, the Global Foundation; Andrew Khoo, Assistant Managing Director, Monetary Authority of Singapore; Ajit Ranade, Chief Economist, Aditya Birla Group, and Wang Dan, Deputy Director General, People's Bank of China.

The panel was charged with three key areas of interest.

1. What are the factors affecting global financial stability: sovereign debt crises, ample liquidity, fragile recovery and price fluctuation of commodities?
2. What do we learn from bilateral currency swap cases and experiences: China-Japan, China-ROK, Japan-India, for example?
3. What are the prospects for multilateral efforts at financial stability and exchange rate coordination?

Khan started by stating that we are living in interesting and challenging times hinting at the sovereign crisis in the developed countries and advised that we need to ensure that solutions to solve short-term problems should not create newer long-term problems. Swap arrangement is one of the tools available with Central Banks to provide currency stability. Although swaps can take care of immediate needs, they have costs attached to them and one needs to also factor the signaling impact and market perception of utilizing a swap. As an example of a stable swap agreement, he said that India had a US$3 billion currency swap agreement with Japan from 2008 until June 2011. The two countries were negotiating to sign a new much higher swap agreement.

Currently, most of the currency swaps are denominated in US dollar but this has to change as local trade patterns are changing. Khan argued that Asian countries can use local currencies between and amongst themselves, and they do not have to depend on US dollar arrangements. Even countries whose currency is predominantly used for trade (US and Euro) should have coordination with other countries when they adjust monetary policy, as their decisions have a global impact on trade and investments.

Steve Howard proposed that Asia have a larger role in shaping global policies. Asia needs to have a unified policy and needs to develop it with the help of G20 countries and IMF. Asia should not work in isolation and should take the help of developed countries to shape the regional policies.

The point was that solving financial problems should not be left to central banks alone, but private sector and civil society should work with central banks in finding pathways for solving financial problems

As China goes global, it should internationalize its capital and get its capital deployed in the world. Howard's belief is that if and when China makes its currency fully convertible, it will transform global financial markets. He further added that India needs large investment in the infrastructure sector, and India needs to channel private savings into infrastructure spending through the right set of Public-Private Partnership (PPP) models.

Andrew Khoo addressed the importance of safety nets for currency stability. He said that countries usually have three lines of defense:

1. FOREX reserves
2. Currency swaps
3. International agencies like IMF

Khoo also emphasized that currency swaps provide an additional pool of resources, which is stabilizing in its effect. He added that going forward it will be equally important for countries to have RMB liquidity as they presently have US dollar liquidity, to keep up with what is expected to be increasing trade with China. He suggested a multilateral Asian swap fund can be made wherein each member is able to swap local currency to US dollar on a multiple, in ratio to its contribution to the fund. However, even if such arrangements are available, these arrangements can only complement IMF and not replace it, as IMF has much larger access to funds, the technical expertise as well as the enforcement capacity. He also emphasized that to reduce currency exchanges it is important to mobilize internal savings.

Ajit Ranade said that even though Asia comprises approximately 25 countries, 80 percent of the Asian population resides in India and China, so any Asian solution without involving India and China will not be effective. He added that while Indo-China trade was virtually zero about 10 years back it has increased to US$100 billion now. However, this trade between India and China is asymmetric. India will have an annual US$30 to US$40 billion trade deficit with China leading to a large current account deficit. At the same time, India has large infrastructure requirements and against this backdrop, India has been signing several agreements with China on high speed rail, power, and other infrastructure needs. It is only logical that China invests in Indian infrastructure in local currency.

China should initiate a long-term debt fund that could invest in India and hence local currency lost through the current account can be invested back

in India through capital account transactions. Such a bond could carry a pre-negotiated interest rate, hence benefiting China as it ensures steady returns whereas India would get access to long-term infrastructure funds.

Wang Dan, Deputy Director General, People's Bank of China said that China initiated bilateral local currency swaps back in 2008, the first one being signed with ROK. This provided ROK support during the financial crisis. ROK has not used its swap but it has provided liquidity and confidence to ROK. In 2009, China signed similar agreements with Malaysia, Indonesia and Hong Kong. To date China has signed about 18 bilateral swap agreements for a total amount of RMB1.6 trillion. Beyond its focus on Asia, China is now signing similar agreements with Europe, Australia and Latin American countries. These agreements in local currencies also help China as if they had signed in US dollar, China would have to earn additional US dollar to support such agreements. Such bilateral agreements also contribute to regional financial stability of Asian countries. She also added that it not only provides stability but helps to facilitate trade and investments between countries.

What are the next steps in advancing regional financial cooperation? If one looks at the three major capital regions in the world, North America, Europe, and Asia, the aggregate value of the equity markets in each is in the same range. But outside Asia, the equity markets are much more concentrated in a few major locations. That results in strong coordination, more geographic diversity in the listed companies, richer offerings of financial products, and ultimately access to greater sums of capital. Asian markets are fragmented, as a result of the many economies, historic differences in development models, all the other aspects of linguistic, cultural, and ethnic diversity in China, and a tendency to restrictive regulations, nation by nation, driven by national growth goals. Addressing these issues, a panel moderated by Sabyasachi Mitra, Principal Economist, Office of Regional Economic Integration (OREI), ADB, was entitled "Regional Financial Cooperation: Blueprint & the Next Steps Forward". This panel was designed to propose concrete steps that would address both the challenges and opportunities that were explored in the previous panels on the region.

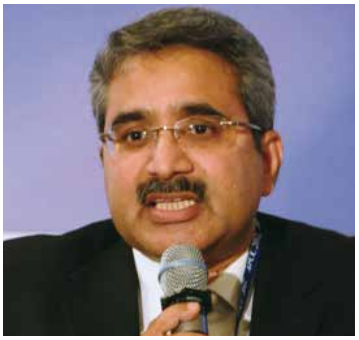
Sabyasachi Mitra (Moderator)
Principal Economist, Office of Regional Economic Integration (OREI)
ADB

Chen Chaw Min
Deputy Under Secretary
Ministry of Finance Malaysia

Hemant Contractor
Managing Director & Group Executive
(International Banking)
State Bank of India

Jia Kang
Director
Research Institute for Fiscal Science
Ministry of Finance, China

Long Guo Qiang
Director General, Macroeconomics
Development & Research Center
State Council



Joseph Massey
Managing Director & CEO
MCX Stock Exchange Limited

Panelists included Chen Chaw Min, Deputy Undersecretary, Ministry of Finance Malaysia; Hemant Contractor, Managing Director (International Banking), State Bank of India; Jia Kang, Director, Research Institute for Fiscal Science, Ministry of Finance, China; Long Guo Qiang, Director General, Macroeconomics, Development & Research Center, State Council, and Joseph Massey, Managing Director & CEO, MCX Stock Exchange Limited.

Three key issues were put to the panel.

1. How should Asia's stakes in the global system and recovery be defined and delineated?
2. What are current Asian perspectives and analyses of the global recovery, crises, and major players?
3. What steps should be taken to strengthen Asia's voice in the conduct of global affairs?

Sabyasachi Mitra started off by stating that it was the global crisis that spurred Asian integration. The total investment portfolio of Asia is only seven percent of the debt market. An important focus of AFCC is risk management and how to effectively manage future crisis situations that we might see. Long Guoqiang's perspective was that financial cooperation should focus on the real economy, which has not been done so far. There is an outflow of investments from Asia instead of funding being used for local development. The objective of this platform is to ensure that the flow of investments stays within Asia. There is a need to prevent and mitigate a financial crisis similar to 1998.

One of the structural issues is that monetary integration is missing in Asia. Asia should look at further development of the bond market in Asian local currencies. The real economy requires funding.

Financial systems in most markets are designed to withstand financial crisis instead of supporting the real economy

We need to encourage trade flows in local currency to lower exchange rate risks for importers and exporters. Government could provide guarantees on bonds to promote the bond market. Funding for infrastructure could be a way to ensure cross-border funding and to make Asia increasingly interconnected. Asian financial cooperation must do both: mitigate financial risk and be pro-growth and pro-development.

Chen Chaw Min referred to the 1997 Asian financial crisis and the lessons that were learnt from it. Malaysia took measures that were not what conventional authorities advocated; the country's aim was to maintain financial stability at that point. Malaysia looks at Asia as an integrating market and its policy is always towards regional cooperation. It has a Chinese-Indian community and a Muslim community. Malaysia moved towards developing bonds using Islamic financial policy instead of short-term funding for long-term needs. If Asians are able to get together regionally the outflow of investments to other regions can be curtailed. Failing this will direct funds to projects in developed countries instead of within Asia. Asia has an abundance of natural resources; however to ensure sustainability strong financial planning is required.

Education has driven a large income gap. Asian countries tend to compete with each other instead of complementing each other and working together. Asia should instead develop a niche market for itself. The impending financial crisis in Europe is actually an opportunity for Asia. We need to correct external perception as well as improve the issues of corruption and lack of transparency that Asia is marred with. Providing more confidence to outside investors is a key to future funding. Malaysia undertook a one of a kind Economic Transformation Program, taking measures to transition its middle income groups to higher income groups by moving from traditional services to high-value services/activities.

Joseph Massey noted that the Top 10 global financial firms are still from US and Europe. While the Asian financial companies have scaled-up, there is a continued preference for matured firms from US and Europe. The question is whether Asia will become a truly global financial center?

Most countries in Asia will need to fund their growth themselves but local savings are going into local investments. There are not enough surplus funds available to invest outside. Most players on the stock exchange still operate internally. There is a need to set milestones by which countries set a target for capital market convertibility. Cross-border transactions are still predominantly bilateral. Exchange and Over-The-Counter (OTC) markets must move in tandem.

Hemant Contractor said that the vacuum created due to the Eurozone and US crisis has been partly filled by the Japanese banks. Deleveraging, thus, softened the impact of the crisis and hence the impact was not acutely felt by Asia. However, there exists a huge gap which gives Asian cooperation paramount importance. The appetite for funds in Asia is enormous. After the crisis of 1998, Asian companies realized it was better and less risky to trade with neighbors than with the far-off countries. Intra-Asian trade has grown to 55 percent today from 40 percent earlier. This leads to new risks between trading partners, so there is a need for both to be financially healthy. Therefore, financial discipline is critical for Asia.

Regional Financial Cooperation: Blueprint & the Next Step Forward
(From left to right) Sabyasachi Mitra, Chen Chaw Min, Hemant Contractor, Jia Kang, Long Guo Qiang and Joseph Massey

As the volume of trade increases, and along with it the risk, how do we avoid another crisis?

Jia Kang's view was that we should talk about the trend of economic development in Asia when we talk about financial cooperation. Developing countries have growth momentum stronger than that of developed countries. Asia, which has more developing countries, is creating more opportunities and challenges alike. Although China has had strong economic growth for the last decade there is likely to be a slowing of growth. China may also fall into the "middle-income trap" soon, and other Asian nations may as well.

In conclusion, the panel discussed the balance between intra-Asian competition and cooperation. Recommendations to address this include the following:

1. Take advantage of trade in the region. Financial cooperation should facilitate FTA in Asia.
2. Determine financial cooperation by way of tangible and realistic issues to support the real economy with funding and real financial products and services, for example, infrastructure projects. If we can allocate resources or capital in Asia on a mutually beneficial basis we can create real cooperation.
3. In developing countries infrastructure is a real need and we need expertise in project financing. China's experience in project financing has been successful and can leverage PPP, for example, build-operate-transfer (BOT) models for highways, sewage, and water to speed up development.
4. Asian countries need to encourage and facilitate the bond market and currency swap market.
5. The ASEAN Plus Three (China, Japan and ROK) framework used for multi-lateral cooperation should be created for Asia as well. This group meets five times a year to study macro-economic trends, early warning and opportunities for financial cooperation. We need to have an Asian IMF.
6. China, Japan and ROK have considered having a unified Asian currency. From an academic perspective it may eventually happen in the next three to five decades although not in the short-term of three to five years in the aftermath of the financial crisis in Europe. If we look at European companies, who were historically bitter rivals, they nonetheless successfully came together and formed a unified currency. The Euro and the economic integration of the Euro is successful. An Asian currency and Asian integration therefore could be a dream that could turn into reality.

The physical world of Asia

For the last several years, discussions of Asian development and integration have always encompassed concerns over the environment, limited resources, and the strain development puts on our physical world. Water shortages, air pollution, public health risks, commodity shortages, and natural disasters loom as potential hazards in the development trajectory of Asia's major economies and the region as a whole. Awareness and open discussion of these issues is not only critical for planning purposes but helps leaders make contingency plans for the unexpected.

Energy is very much at the heart of this discussion. Availability, cost, and utilization of major fossil fuels will continue to be energy mainstays across Asia, but the consequences of their use and misuse are increasingly understood. A panel moderated by Tuhin K Mukherjee, Managing Director, Essel Mining & Industries Limited and Sector Head, Mineral Resources Development, Aditya Birla Group dealt with these issues. Entitled "Energy & Resources: A Supplier – Consumer – Investor Dialogue", the panel included Lars Bergman, President, Stockholm School of Economics; Dennis Bracy, CEO, US-China Clean Energy Forum; Li Xiao Lin, Chairman, China Power International Development Limited, and Zhang Guo Bao, Chairman, Advisory Board, National Energy Commission.

Energy & Resources: A Supplier – Consumer – Invester Dialogue
(From left to right) Tuhin K Mukherjee, Lars Bergman, Dennis Bracy, Li Xiao Lin and Zhang Guo Bao

Lars Bergman started the session by highlighting that these are challenging times as changing technology, economics and politics are driving the change in global energy markets. He highlighted that there are four major forces that are changing the world energy paradigm namely:

1. Shale gas revolution in the US, leading to the US being self-reliant in energy;
2. China and India driving growth in energy consumption;
3. Rapid growth in renewable source technologies;
4. Emergence of energy efficient technologies especially in transportation.

He also said that three key drivers will shape the future:

Technology

Technology is expected to play an important role as can be seen from the increased shale gas recovery, which has become cheaper now due to advancement in technology.

Institutional factors

Institutional factors will give advantage to certain regions (for example even Poland and Sweden have large shale gas reserves but are unable to capitalize them as they do not have a property rights regime similar to the US).

Climate concerns

Climate concerns will put pressure on energy efficiency and low carbon technologies.

Bergman added that as the US becomes self-sufficient in meeting energy requirements, it will divert much of the gas resources originally intended for the US. This will put pressure on European and Asian gas prices and will impact Russian gas exports. He added that even though there is a boost in renewable generation, coal will continue to remain a dominant energy supplier in India and China. Further, the future of nuclear power is uncertain after Fukushima. Many countries have scaled down their nuclear plan. This will have a major impact on global emissions as nuclear energy is carbon free.

Dennis Bracy argued that time is a common enemy for all and we should not wait for perfect solutions. We should immediately implement all the technologies available for low energy consumption and low carbon technologies like advanced coal, green buildings etc., without waiting for a perfect solution. He added that if the world waited another five years, these schemes will lose 53 percent of their effectiveness.

Bracy emphasized that technology innovation is very important. New technologies like advanced coal and poly-generation could play a significant role in carbon reduction. With improvement in technology, we can improve the efficiency by one percent and achieve significant improvement (10 percent to 15 percent) reduction in harmful emissions. Poly-generation could help extract as much as 25 percent of the carbon content and could be used as a feedstock for the petrochemical industry, thus earning a secondary source of income.

Bracy emphasized the need for a pragmatic approach to reduce energy consumption. For example in Sweden, the energy consumption was reduced to half by undertaking simple and pragmatic steps which made economic sense.

China has already undertaken important steps in reducing its energy consumption. For example, in phase one of its plan it had identified 1,000 large industry enterprises in sectors like cement, steel for energy efficiency schemes. Further, in the next Five-Year Plan, another 10,000 have been identified. Financing of these schemes and creditworthiness of identified industries may become a concern in this phase.

Finally, Bracy observed that access to electricity and storage of electricity are the other key concerns. He said around two billion people still do not have access to electricity which is one of the primary needs of people. Further, improvements in carbon storage technology would be required to reduce the need for costlier peaking power plants.

Li Xiao Lin reported that her company has been very active in promoting new energy in Asia especially China. She said that new energy will be the future and the theme of the conference could as well be "Open Asia, Open Finance, Open new energy". Further, she said that focus areas should be new energy sources like renewables and smart grids. Also, we need to create a new energy fund with domestic and international financing and promote an Asian Carbon Trading center.

Zhang Guo Bao emphasized that the political scenario is playing a major role in influencing oil prices. He highlighted some examples in Africa, the Middle East, Iran, and Syria etc. Considering the political scenario in these countries and the increasing demand from growing countries like India and China, this would put an upward pressure on oil prices. However due to the challenging economic scenario in many countries, the demand growth would be sluggish and with the limited influence of the Organization of the Petroleum Exporting Countries (OPEC), the price of Brent crude might still be around US$110 in the next year. Zhang said that there is change in the geographical balance of energy use and supply. Shale gas in US, oil sands in Canada, big oil finds in Brazil and Venezuela are shifting energy production westwards whereas demand in developing economies of China and India is driving the consumption eastwards.

Zhang agreed that the future of nuclear is unclear. After the Fukushima incident, construction and development of nuclear power plants in various countries have slowed down. Japan has closed down 52 of its 54 nuclear power plants. It is now increasingly dependent on imported Liquefied Natural Gas (LNG) for its energy needs. This has led to soaring prices in the Asian gas markets. Due to this, the power industry in Japan is in turmoil, with the utilities in Japan staring at a cumulative loss of US$9.8 billion. The major reason for the increase is the government intervention in electricity tariffs and utilities' inability to pass on the increased fuel costs to consumers.

Zhang concluded by noting that China and India are cooperating in many areas rather than competing with each other. There have been cases in Sudan and Burma where India and China have jointly invested in projects. Even in the power sector, Chinese exports contribute almost one third of the equipment for future capacity addition in installed capacity.

Conclusion and review

We hope readers will find this detailed report a useful record of this valuable meeting of experts addressing the most important issues facing Asia today.

The AFCC created a new platform for communication between and among the major Asian economies that will shape the future of the region and exert a major influence on the future of the world.

The organizers are grateful for the enthusiastic support received from governments and businesses in promoting the Conference, and grateful to participants for their generous contribution of time and willingness to engage in discussion of the key issues of our day. We look forward to the continuation of this dialogue and to continued progress in future win-win developments of the Asian region.

About Boao Forum for Asia

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 exchange views, and share visions on the most pressing issues in this dynamic region and the world at large. The forum is committed to promoting cooperation for regional economic integration and bringing Asian countries even closer to their development goals. Initiated in 1998 by Fidel V. Ramos, former President of the Philippines, Bob Hawke, former Prime Minister of Australia, and Morihiro Hosokawa, former Prime Minister of Japan, Boao Forum for Asia was formally inaugurated in February 2001. Countries across the region have responded with strong support and great enthusiasm, and the world has listened attentively to the voice coming from Boao, the permanent site of the Annual Conference of the forum since 2002.

About Federation of Indian Chambers of Commerce and Industry

The Federation of Indian Chambers of Commerce and Industry (FICCI), established in 1927, is the oldest top-tier business association in India, drawing its membership primarily from the corporate sector, both public and private. FICCI is linked to chambers and other business associations around the world and describes its mission as supporting rapid and sustainable economic growth that encompasses health, education, livelihood, and skill development. FICCI plays a significant role in a large number of international conferences, multilateral and bilateral forums, and trade and investment delegations.

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