



**BFA Energy, Resources and Sustainable Development Conference
& AEF Silk Road Countries Forum
Session Summary (No. 6)**

Boao Forum for Asia Institute

May 26, 2016

Session 5

Europe-Asia Economic Cooperation and Trade

Time: 11:00-12:30 a.m., 26th May 2016

Venue: Congress Hall 2, 1st Floor, Palace of Independence

Moderator: Agris PREIMANIS, Lead Economist on Central Asia at European Bank for Reconstruction and Development

Panelists:

- Denis BORODITSCH, Chair of Committee of the Transit and The Logistics of Estonian Parliament
- Ariel COHEN, Director of The Center for Energy, Natural Resources and Geopolitics (CENRG) at the Institute for Analysis of Global Security (IAGS)
- CHENG Fude, Chief Accountant, China Datang Overseas Investment Co., Ltd
- HAN Wenke, Member of the BFA Expert Committee of Energy, Resources & Sustainable Development,, and Director General, Energy Research Institute, NDRC, China



- Arhat ISKALIEV, Member of the Trustee Board of International Institute of Logistics and Business "Silk Way", Kazakhstan
- LV Zushan, Vice Chairman, NPC Financial and Economic Committee, China
- Evgeny VINOKUROV, Director of Centre for Integration Studies, Eurasian Development Bank
- Yerzhan TUTKUSHEV, Co-Managing Director: Development of New Industries, “Samruk-Kazyna” JSC
- ZHANG Xiaoqiang, former Vice Minister, NDRC, China, and First Vice Director of the China Center for International Economic Exchanges

Key points:

- The construction of the Silk Road Economic Belt has by far entered the second stage, when governments, think tanks and economic entities start to quantify the construction of infrastructure. Vigorous support should be given to the construction of infrastructure such as energy, transportation and telecommunications.
- As small and medium enterprises (SMEs) comprise the main traffic on the Silk Road Economic Belt, an “e road” should be added to the silk roads by sea, land and air so that the Internet will become a vehicle and platform for the construction of the Silk Road Economic Belt. The establishment of an energy and resource union of Asian countries including countries along the Silk Road can play an important role in global energy and resource cooperation.



- Currently, financial services for foreign investment are inadequate in Kazakhstan. The development and integration of a regional financial market must be driven by efficient assets invested in the market. Through a series of efforts, Astana is likely to become an international financial center of this region.
- The Silk Road Economic Belt passes many countries. Enterprise investment is faced with risks at various levels, especially in countries and regions with high political risks. Therefore, should we establish a trans-national ministerial coordination mechanism such as a “Belt and Road” Committee? Panelists held different views on this question.

Synopsis:

On May 26, the BFA Energy, Resources and Sustainable Development Conference & AEF Silk Road Countries Forum with the theme of “Integrating ‘One Belt, One Road’ with the Eurasian Economic Union” was held in Astana, capital of Kazakhstan. At the session on “Europe-Asia Economic Cooperation and Trade”, panellists held heated discussions around the status quo and problems of Europe-Asia economic cooperation and trade, how to use the financial system to support the cooperation and development in this region and whether a “Belt and Road” Expert Committee should be established.



The Construction of the Silk Road Economic Belt Has Entered a Substantive Stage

Evgeny VINOKURO thought that the construction of the Silk Road Economic Belt has entered a stage of “quantification”. He thought that the “Belt and Road” Initiative has completed the first stage, during which full exploration has been conducted on the splendid vision of this initiative. The construction of the Silk Road Economic Belt has by far entered the second stage, when governments, think tanks and economic entities start to quantify the construction of infrastructure. Take the construction of transportation arteries for example. Some think tanks in China and Kazakhstan have conducted relevant studies on “which transportation corridor should be given priority in construction”, including investment scale and cargo types, among others. At the next stage, feasibility studies should be conducted on projects, and the final stage will be execution and implementation.

ZHANG Xiaoqiang held that without vigorous support by infrastructure such as energy, transportation and telecommunications, industrialization and urbanization will be very difficult. Besides, the role of telecommunications infrastructure is becoming more and more important. E-commerce in China, with has the largest scale in the world, relies on the development of the 3G and 4G networks of China Telecom. He proposed that substantial support be given to infrastructure such as energy, transportation and telecommunications

LV Zushan strongly recommended promoting Internet-based economic activities along the Silk Road Economic Belt. Citing an example of the development of Internet economy in Zhejiang Province, LV Zushan explained that the Internet is an important approach for SMEs to participate in economic globalization. The birth of Alibaba and the development of



SMEs have made Zhejiang Province one of the most dynamic regions in China. Internet + traditional industries can give rise to emerging industries, such as Internet finance, cross-border E-commerce, online education and medical care, while driving employment and improving people's livelihood. This also agrees with the co-construction objective of the Silk Road Economic Belt. LV Zushan noted that SMEs will be the main traffic on the Silk Road Economic Belt. An "e road" should be added to the silk roads by sea, land and air so that the Internet will become a vehicle and platform for the construction of the Silk Road Economic Belt.

HAN Wenke noted that the constant fluctuation in the current energy market, price drop in bulk commodities, and global disequilibrium in supply and demand have brought about many challenges and even negative impacts to energy exporting countries including Central Asian countries. Asia is home to big energy supply countries and also big energy consumption countries such as China and Japan. He called for the establishment of an energy and resource union of Asian countries including countries along the Silk Road, which can play an important role in global energy and resource cooperation. This union may help suppliers and buyers to coordinate their policies and communicate information so that stable development can be achieved in the energy market. This union can also channel the incomes of energy development towards local people and industries while leveraging complementary forces to develop underdeveloped regions.

Arhat ISKALIEV discussed problems facing Silk Road trade. He thought that Silk Road trade lacks a uniform standard. He suggested that uniform laws, norms and standards be established for the whole Silk Road Economic Belt including the Land Silk Road, the Maritime Silk Road and Free Trade Zones.



As for projects that have settled, Arhat ISKALIEV noted that providing various high-standard services to enterprises is also imperative, and the customs should make improvement on how to streamline processes and improve service standards.

Denis BORODITSCH expressed his attitude towards the "Belt and Road" . He said that the Silk Road Economic Belt can lower the transportation cost of his country and other Central Asian countries and can reach external markets at different stages. Estonia, now vigorously developing its Internet-based economy and electronic industry, will use the Silk Road Economic Belt to help its enterprises go global; to strengthen its local infrastructure and improve the transportation networks with countries in North Europe and along the Baltic Sea; to promote telecommunications integration in order to facilitate enterprise development; and to benefit from free trade agreements that aim to remove trade barriers.

How to Establish an Effective Regional Financial Support System

Financial service is an important support system for regional development and cross-regional cooperation. Astana, the capital city of Kazakhstan, now strives to become an international financial center to promote regional development.

Yerzhan TUTKUSHEV discussed the construction of a regional financial center from the perspective of investment. He said that the Samruk-Kazyna State Welfare Fund is an active factor in regional financial services, which can make efforts from the supply side of the capital market to contribute to the capital flow between capital markets as well as within Eurasia. He noted



that Kazakhstan is now accelerating privatization, and by 2020 state-owned assets in 44 major categories will be put on the market by way of selling or listing. Astana, on the way to constructing an international financial center, is poised to play an important role. Investors wish to invest in enterprises with the highest governance standards and good prospects. The supply side should meet the demands of international investors. The development and integration of a regional financial market must be driven by efficient assets invested in the market.

CHENG Fude discussed in detail the local financial services from the perspective of an enterprise. He remarked frankly that the too high interest rate in Kazakhstan is a barrier for the investment of foreign enterprises. He compared the benchmark interest rate in Kazakhstan (12% and to be floating upwards) with that in China (about 4%), the United States (about 3%), Europe (close to 0% in some countries), Serbia (about 4%), Georgia (about 8%), Armenia (about 8%), Azerbaijan (about 8%) and Russia (about 11%), and concluded that enterprise loans are affected by the benchmark interest rate of the country, which will lead to a too high debt ratio and affect shareholders' return on investment.

Ariel COHEN discussed the prospect of establishing an "international financial center" in Astana, and concluded that it is not an easy thing to do. It took London hundreds of years to become a global financial center, it took Dubai several decades to reach its current status, and it is the same case with Hong Kong and Shanghai. Morocco is also starting a plan to build Casablanca into an international financial center. Due to Moroccans' French language advantage and geological location, this plan will enable Casablanca to become a financial center of the French-speaking region in African. He



noted that similar to Casablanca, Astana is also likely to become a regional international financial center. To this end, Astana and Kazakhstan should improve the legal system. If the same legal system is adopted in the Eurasian Economic Union, regional economic development will be facilitated. To develop a high-quality financial service industry, Ariel COHEN noted that Kazakhstan should have a reserve of high-caliber talents to support the development of the financial center. Currently Kazakhstan is promoting a “tri-lingual education” (Kazakh, Russian and English). This policy, absent in neighbouring countries, will enable this country to win this round of competitions. He also said that the policy and legal environments in this region have yet to be integrated.

About the “ ‘Belt and Road’ ” Expert Committee

In this session, the panelists held heated discussions on whether a trans-national ministerial coordination mechanism --the “Belt and Road” Committee--should be established, which attracted the attention and participation from the audience.

CHENG Fude held that as the Silk Road Economic Belt runs across many countries, enterprise investment is associated with risks at various levels, especially in countries and regions with high political risks. Therefore, we should establish a trans-national ministerial coordination mechanism such as a “Belt and Road” Committee to cope with political and exchange rate risks, and establish a regional financial system to better protect and serve investors. A high-level coordination mechanism can also help with overall planning and legal protection, and better promote the "Belt and Road" Initiative.



Evgeny VINOKURO held that to establish an inter-governmental coordination mechanism, the Eurasian Economic Union can first work out a plan, then a ministerial meeting can be established, and finally a coordination organization at a higher level can be established, in which the Shanghai Cooperation Organization should be able to play an important role.

Ariel COHEN raised some questions on these proposals. For example, should a multinational peace maintenance force be stationed in regions of conflict? If so, which country should provide the bulk of solid security services? With regard to these questions, CHENG Fude held that security insurance is important, but we should not copy the practice of the United States, and instead should resort to consultation among various countries for decision making.

Arhat ISKALIEV did not agree with the opinions. He thought that economy is an antidote to regional conflicts. Developing industrial parks and trade in such regions as Afghanistan can resolve their current problems. He thought that the main purpose of "Road and Belt" is to transfer technologies and production capacity and promote trade development so as to improve the local environment. The United States enforces an external mechanism in an attempt to establish rule of law and order, but this does not hit the mark. The approach of promoting local economic development, on the other hand, could be a solution.

HAN Wenke interpreted the "Belt and Road" Initiative from the perspective of its visions. He noted that the "Belt and Road" Initiative is for economic development, and is moving ahead based on bilateral or multilateral consultations. Work will be carried out on the basis of current conditions, and great respect will be paid to individual countries' sovereignty in its progress.



A trans-national coordination mechanism would be unlikely under such circumstances.